

# SHADOW REPORT

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ON UKRAINE'S PROGRESS IN RESPECT  
OF CHAPTER 29 OF THE ACQUIS

2025



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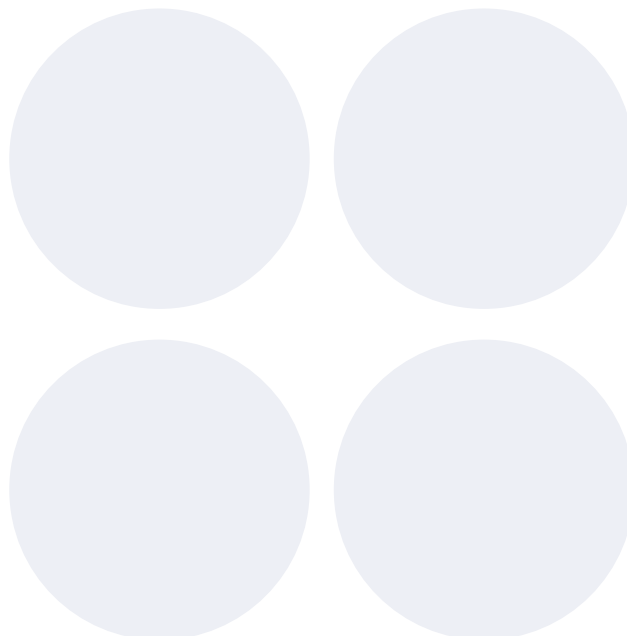
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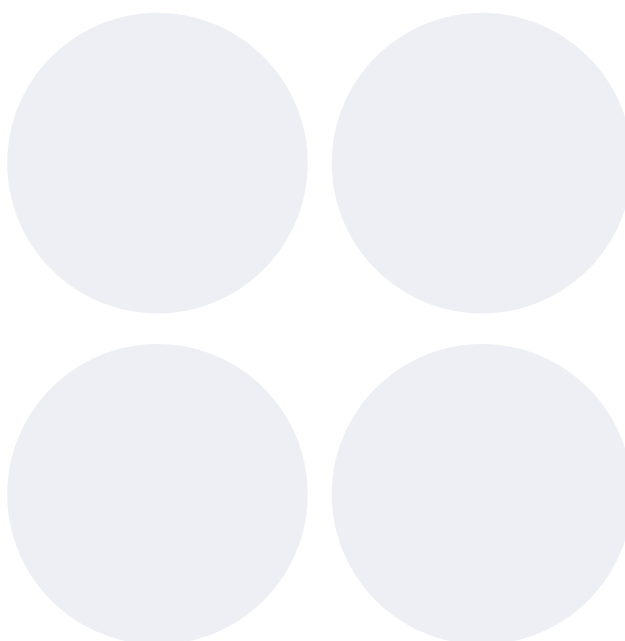


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# LIST OF ABBREVIATIONS



<b>AEO</b>	Authorized Economic Operator
<b>AEO-C</b>	Authorized Economic Operator — Customs Simplifications
<b>AEO-S</b>	Authorized Economic Operator — Security and Safety
<b>ARMS</b>	Automated Risk Management System
<b>BES</b>	Bureau of Economic Security
<b>CCAS</b>	Customs Clearance Automation System
<b>CCU</b>	Customs Code of Ukraine
<b>CDS-UA</b>	Customs Decision System — Ukraine
<b>CMU</b>	Cabinet of Ministers of Ukraine
<b>CRM</b>	Customs Risk Management
<b>CRMF</b>	Customs Risk Management Framework (EU)
<b>CRMS2</b>	Customs Risk Management System 2 (EU)
<b>DG TAXUD</b>	Directorate-General for Taxation and Customs Union (European Commission)
<b>E-Permit</b>	Electronic Permit System (Ukraine)
<b>EUBAM</b>	European Union Border Assistance Mission to Moldova and Ukraine
<b>EUAM</b>	European Union Advisory Mission to Ukraine
<b>EU4PFM</b>	EU Public Finance Management Support Programme for Ukraine
<b>GATT-WTO</b>	General Agreement on Tariffs and Trade — World Trade Organization
<b>GMS-UA</b>	Guarantee Management System — Ukraine
<b>HRM</b>	Human Resource Management

<b>ICS2</b>	Import Control System 2
<b>IMF</b>	International Monetary Fund
<b>IT</b>	Information Technology
<b>KPI</b>	Key Performance Indicator
<b>MASP-C</b>	Multi-Annual Strategic Plan for Electronic Customs (EU)
<b>MoF</b>	Ministry of Finance (Ukraine)
<b>NACP</b>	National Agency on Corruption Prevention (Ukraine)
<b>NAP</b>	National Access Point
<b>NCTS</b>	New Computerized Transit System
<b>OKR</b>	Objectives and Key Results
<b>OSA</b>	Operational-Search Activities
<b>PCA</b>	Post-Clearance Audit
<b>RMS</b>	Risk Management System
<b>SCS</b>	State Customs Service (Ukraine)
<b>SWIT</b>	Single Window for International Trade (Ukraine)
<b>UCC</b>	Union Customs Code (EU)
<b>USAID</b>	United States Agency for International Development
<b>WCO</b>	World Customs Organization

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Aligning Ukrainian customs legislation and practices with the European is essential for developing its economy, and consequently for achieving stability and security.

The European Union is a reliable political and economic partner of Ukraine. In 2024, Ukrainian trade turnover amounted to 112.3 billion US dollars. Of this, 54% was with EU countries. The EU also provides international technical assistance in the customs sphere, carries out advisory missions in Ukraine and assists with the practical approximation of common rules and the adaptation to conditions of global uncertainty and supply chain disruptions.

The granting of EU candidate status to Ukraine in June 2022, followed by the commencement of official accession negotiations in June 2024, has created a new level of commitment to the implementation of EU legislation into national law. Chapter 29 of the negotiation process, which is dedicated to the customs union, is particularly important in this context.

**Implementing European standards in customs  
should bring Ukraine threefold benefits:**

- firstly, increasing the efficiency of the customs authorities and boosting budget revenues;
- secondly, reducing the risk of corruption through process automation and increased transparency;
- thirdly, fostering favourable conditions for Ukrainian businesses and international trade, which is particularly crucial for post-war economic recovery.

However, the current challenges facing Ukrainian customs extend beyond issues of economic integration. Restructuring logistics routes, ensuring the functioning of supply chains under threat of military action, guaranteeing the uninterrupted import of critical goods and protective equipment, and combatting smuggling all require systemic solutions.

Adapting Ukrainian customs legislation to EU standards requires not only a formal review of the regulatory framework, but also a transformation of the institutional structure, technical equipment and professional training of the staff of the State Customs Service of Ukraine.

This shadow report provides an analysis of the current state of affairs in Ukraine's customs sector. In particular, it examines the alignment of legislation with EU standards, the development of law enforcement within customs, the introduction of digital customs systems, the expansion of common transit and the Authorised Economic Operator (AEO) programme, human resource development, and the effectiveness of public finance management, risk management, and post-customs control.

**This report will be particularly useful for:**

- representatives of Ukrainian government authorities responsible for developing and implementing customs policy and the process of European integration;
- economic operators and business associations interested in simplifying customs procedures, regulatory predictability, and harmonisation with European Union customs standards;
- analysts and experts researching customs administration, the adaptation of Ukrainian legislation to EU requirements and law enforcement issues;
- civil society organisations who are monitoring and controlling the activities of the State Customs Service of Ukraine and the process of European integration;
- international partners and organisations supporting Ukraine in implementing customs reforms on its path to EU membership.

The report provides an independent assessment of the progress and challenges involved in aligning Ukraine's customs legislation and practices with European Union standards by the end of June 2025.



# EXECUTIVE SUMMARY



This executive summary offers a consolidated, evidence-based assessment of Ukraine's customs reforms in light of its progress towards EU accession in the 2024 Enlargement Report of the European Commission. Drawing on the latest data and institutional developments, it evaluates progress toward alignment with the Union Customs Code, implementation of digital infrastructure, risk management practices, and the evolving enforcement framework. The findings aim to inform the broader public and the Commission's assessment of Ukraine's readiness for integration into the EU customs union and to support targeted recommendations for closing critical compliance and governance gaps.

## **Ukraine 2024 Report**

**Q:** As regards customs legislation, the Ukraine's Customs Code was amended in November 2023 and in August 2024 to further align it with the Union Customs Code (UCC). Ukraine has also started the development of a new Customs Code, which aims to fully align it to the UCC.

**C:** While Ukraine amended its Customs Code to align with elements of the UCC, the law's entry into force revealed serious shortcomings in regulatory implementation. A half of needed bylaws were delayed in publication for discussions. A significant part of bylaws was published only days after the law took effect<sup>1</sup>, leaving businesses without legal clarity during the transition. Clarifications and development of the new bylaws continued into May and June. Both the law and bylaws contained errors that further complicated implementation. Some legal amendments were made regarding this in June 2025 by Verkhovna Rada of Ukraine (Law of Ukraine No 4473- IX).

Probably these challenges stem from a failure to prioritise early regulatory planning by the Ministry of Finance, but there is also a chance that it was caused by limited institutional capacity. However, it is evident that broader and earlier engagement with stakeholders through genuine public consultation could have identified and resolved many of these issues in advance. For instance, thanks to the work of the Public Council of the SCS were raised numerous practical questions to the MoF and SCS. They led

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<sup>1</sup> For example, the procedure for temporary storage declarations was published on 25 April 2025, nearly a week after the law became effective, causing delays in placing goods under the procedure.  
[zakon.rada.gov.ua/laws/card/z0593-25?lang=en](https://zakon.rada.gov.ua/laws/card/z0593-25?lang=en)

to more clarity from the authorities in scope of practical application of law. This experience is particularly needed given the upcoming full revision of the Customs Code.

In the context of the scale and complexity of forthcoming legislative challenge, related to adoption of the new Customs Code, these shortcomings are not raised to assign blame, but rather underscore the risk of replicating the same mistakes. Despite an initial commitment to publish the draft by December 2024<sup>2</sup>, deadlines were silently pushed to April-May 2025, and as of end of June, the draft remains unavailable — risking bypassing genuine public review. Since the new Code will require comprehensive reissuance of secondary legislation, the potential for even wider disruption is significant unless the implementation process is fundamentally rethought.

### **Ukraine 2024 Report**

**Q:** Efforts were made to raise the use of the common transit procedure notably by abolishing the use of national Ukrainian simplifications. Ukraine made progress in smoothening the application of authorised simplifications. 54 economic operators were granted authorised economic operator (AEO) authorisations, however only 2 of them have received AEO Security and Safety (AEOS) status. It limits the progress in negotiations with the EU on mutual recognition of AEO.

**C:** Ukraine has made progress in expanding the AEO programme, with the total number of authorisations reaching 83, yet the adoption of AEO-S status remains limited — only three operators currently hold AEO-S certification, well below the sufficient number of AEO-S, which can allow for an assessment of the national programme and to advance mutual recognition with the EU. Data also shows that businesses increasingly opt for targeted simplifications over full AEO certification, suggesting structural barriers to broader engagement and a lack of compelling incentives. The same situation can be seen in the EU, who is seeking the resolution while developing new Customs regulations. The Government's decision to revoke practices it referred to as “national simplifications” — though these were never formalised simplification procedures in law — has not triggered the expected migration toward AEO status. Instead, the response highlights that the issue was not the

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<sup>2</sup> Ministry of Finance of Ukraine. Ukrainian customs in the 2030 horizon. The goal is to prepare for accession to the Customs Union and the EU, — column by Yuriy Draganchuk for NV. 17 July 2024. [www.kmu.gov.ua/news/ukrainska-mytnytsia-v-horyzonti-2030-meta-pidhotovka-do-vstupu-do-mytnoho-soiuzu-ta-ies-kolonka-iurii-drahanchuka-dlia-nv](http://www.kmu.gov.ua/news/ukrainska-mytnytsia-v-horyzonti-2030-meta-pidhotovka-do-vstupu-do-mytnoho-soiuzu-ta-ies-kolonka-iurii-drahanchuka-dlia-nv)

Ministry of Finance of Ukraine. On the road to the EU: the first working meeting on the development of a new Customs Code of Ukraine based on the EU Customs Code took place in Kyiv. 4 March 2024. [mof.gov.ua/uk/news/na-shliakhu-do-ies-u-kiievi-vidbulasia-persha-robocha-zustrich-shchodo-rozrobki-novogo-mitnogo-kodeksu-ukraini-na-osnovi-mitnogo-kodeksu-ies-4480](http://mof.gov.ua/uk/news/na-shliakhu-do-ies-u-kiievi-vidbulasia-persha-robocha-zustrich-shchodo-rozrobki-novogo-mitnogo-kodeksu-ukraini-na-osnovi-mitnogo-kodeksu-ies-4480)

existence of these practices, but the lack of practical, attractive alternatives tailored to business realities.

### **Ukraine 2024 Report**

**Q:** Ukraine started NCTS Phase 4 in October 2022 and the transition to NCTS phase 5 was successfully completed in April 2024. Ukraine should further proceed with the extension to NCTS Phase 6.

On administrative and operational capacity, a customs decision management system was developed. A strategic plan for digitalisation of the State Customs Service for 2024–2026 was approved by the government in February 2024 in line with the requirements of the Ukraine Plan. It foresees measures for implementation of IT systems required for the EU accession. In 2024 Ukraine has made progress in the development of the new national customs declaration clearance and risk management IT systems based on the EU acquis, the UCC Work Programme, the Multiannual Strategic Plan for Electronic Customs (MASP C) and best practices. Ukraine has to allocate adequate human and financial resources to ensure the implementation of the strategic plan.

**C:** Ukraine's customs authority has demonstrated strong technical capacity in aligning its IT systems with EU standards — evidenced by the timely implementation of NCTS Phase 5 and continued work on Phase 6. Where implementation falls within the remit of the State Customs Service — such as the approximation of EU data models, core customs processing systems, and deployment of CDS. UA progress has been notable and often ahead of schedule. However, progress across the broader digitalisation agenda is hindered by policy bottlenecks, limited legislative synchronisation with the EU acquis, and chronic underinvestment in human and financial resources. The absence of a dedicated digitalisation budget and competitive salaries, coupled with staff exposure to conscription, undermines the Strategic Plan's implementation and the broader digital transformation of Ukrainian customs.

### **Ukraine 2024 Report**

**Q:** A law criminalising large-scale smuggling of all goods was adopted in December 2023. The Bureau of Economic Security is entrusted with pre-trial investigation. It is important that the customs authority is granted with adequate enforcement powers and has a capacity to be directly engaged in intelligence gathering activities and contribute to pre-trial investigation in cases of smuggling of goods. It is expected that the State Customs service, like other law enforcement agencies, will take part in the comprehensive digitisation of pre-trial investigations and prosecutions in criminal cases at national level.

**C:** While Ukraine has criminalised large-scale smuggling, enforcement outcomes remain limited — few cases reach court, convictions are rare, and complex smuggling networks continue to evade disruption. Despite growing consensus on the need to empower the State Customs Service with operational-search and investigative functions, tangible steps remain limited to draft legislation and sporadic interagency engagement. Given the scale of institutional transformation required, immediate preparatory work is essential — but currently absent.

It must be underscored that enforcement of smuggling-related criminal offences in Ukraine is a shared competence, primarily involving the BES, the National Police, and the Security Service of Ukraine. The SCS, while central to customs control, does not currently possess intelligence-gathering and investigative powers. Any future empowerment of the SCS in this area must therefore be carefully calibrated to avoid duplication of functions and institutional conflicts. Granting enforcement powers to the SCS would require a clearly defined legal mandate, interagency coordination protocols, robust technical infrastructure, and comprehensive investment in staff recruitment, training, and digital systems to ensure readiness and prevent fragmentation of enforcement efforts.

Strengthening human capital remains a critical precondition for the State Customs Service as Ukraine advances toward EU accession. Only 2.3% of customs staff possess B2+ proficiency in a European language, and while not all customs officers are required to possess foreign language proficiency, it is essential for personnel engaged in direct cooperation with EU counterparts, particularly frontline inspectors and senior management. These roles are critical to the implementation of EU-aligned procedures, communication during cross-border operations, and participation in international technical assistance projects. The current indicator remains unacceptably low when assessed against the estimated 40% of personnel whose functional roles require such competence. Unfortunately, available data does not disaggregate language skills by staff category, preventing a more nuanced analysis. Nonetheless, the gap suggests a serious institutional barrier to effective EU integration and international engagement. Despite a 56% increase in the payroll budget in 2024, real wages have barely kept pace with inflation, while frontline customs inspectors — those facing the highest operational and corruption risks — remain the lowest paid among regional peers, earning just €650/month on average.

Performance of risk management systems remains inconsistent. In 2024, automated risk management systems flagged an excessive share of import declarations — 36% on average,— yet 88% of these interventions were limited to document and data checks, suggesting an overextension of low-impact controls. Moreover, the absence of integrated data on detection rates and economic return prevents any

meaningful analysis of its effectiveness. The system's selectivity remains broad, its targeting insufficiently refined, and performance metrics too scattered to guide policy or system improvements.

Customs valuation remains a core area of risk-based control, yet recent patterns surrounding the fallback method raise concerns about consistency and compliance. In 2024, importers applied this last-resort method to nearly 690,000 goods, generating UAH 46.6 billion in duties — 17 times more than all value adjustments initiated by customs. Notably, customs authorities themselves applied the fallback method significantly more often than any other alternative method, undermining its exceptional nature under WTO rules. These trends, suggesting structural distortions and possible informal practices and coupled with wide regional disparities, point to the need for more detailed analysis — something currently constrained by fragmented systems and the lack of linked operational and financial data.

Post-clearance controls — conducted as part of a still-experimental mechanism — covered over 3,100 declarations in 2024, with violations found in 70% of cases and voluntary payments reaching UAH 63.5 million. By contrast, 726 formal documentary audits completed in the same period assessed over UAH 1.1 billion in additional duties, yet only 4.6% of that amount was actually paid. Notably, voluntary settlements following post-clearance engagement outperformed audit-driven collections, suggesting that cooperative compliance approaches may be more effective than formalised procedures under current institutional conditions.

It should be noted, however, that the voluntary post-clearance mechanism which delivered relatively strong results in 2024 is being phased out. Starting May 2025, a newly designed post-clearance control model, based on Law No. 3926-IX, took effect. This reform substantially changes the nature of post-clearance checks, shifting them toward pre-audit analysis and documentary verification rather than a comprehensive review of customs transaction. Whether the new model will yield comparable results in terms of both compliance and fiscal performance remains to be seen.

While technical competence and commitment are clearly present within the State Customs Service, particularly in areas under its direct control, critical dependencies — such as legal synchronisation, interagency cooperation, and adequate staffing — remain unresolved. Bridging this gap requires more than transposing EU rules; it demands functional alignment through better incentives, clearer accountability, and smarter deployment of resources. As Ukraine prepares for full integration into the EU customs area, strategic focus should shift from formal compliance metrics toward measurable, sustained improvements in operational coherence, stakeholder trust, and policy execution.





This Shadow Report is a comprehensive analytical study aimed at assessing Ukraine's progress in adapting its customs legislation and the practical activities of the State Customs Service of Ukraine (SCS) to the requirements of Chapter 29 of the European Union acquis. The report is based on a combination of qualitative and quantitative research methods, which ensures the validity and comprehensiveness of the conclusions presented.

## → Main stages and methods of research:

### 1. Analysis of the regulatory framework:

- A comparative analysis of the current customs legislation of Ukraine and the proposed changes was carried out together with the provisions of Chapter 29 of the EU acquis, including the Union Customs Code (UCC) and other relevant regulations, directives and decisions. Particular attention was paid to Law of Ukraine No. 3926-IX and the process of developing secondary regulatory acts for its implementation.
- The European Commission's 2024 Enlargement Report was analysed in the context of Ukraine's customs legislation to identify key EU assessments and recommendations.
- Other relevant strategic documents of Ukraine are considered for the analysis of reforms in the customs sphere, such as the National Revenue Strategy, the Strategy for the Development of Border Infrastructure with EU and Moldova.

### 2. Assessment of the practical activities of the State Customs Service of Ukraine:

- The structure of expenditures and performance indicators of the State Customs Service's budget programmes for 2023–2025 were analysed to assess the effectiveness of budget funds utilisation and the workload on staff.
- The personnel policy of the State Customs Service, including the level of education, training and remuneration, was examined in the context of the need to adapt to European standards.

- An overview of the interaction between the State Customs Service and business and the public was carried out, including the functioning of advisory bodies and the conduct of public consultations.
- The functioning of the risk management system (RMS) and the automated risk management system (ARMS) was analysed, including indicators of selectivity, effectiveness and economic efficiency.
- An analysis was conducted of the practice of determining the customs value of goods, in particular the application of the reserve (sixth) method, and the effectiveness of decisions on customs value adjustments.
- The results of post-customs clearance effectiveness after the amendments introduced by Law No. 3926-IX were assessed.
- Progress in establishing joint customs control with EU member states and Moldova was reviewed.
- The anti-corruption management of the State Customs Service was analysed, including the implementation of ethical standards and the effectiveness of investigations into corruption offences, as well as the process of selecting the Head of the State Customs Service.
- The expansion of the use of the New Computerised Transit System (NCTS) and the Authorised Economic Operator (AEO) institution was assessed, as well as the impact of abandoning so-called 'national simplifications'.

### **3. Analysis of progress in the implementation of digital infrastructure:**

- A review was conducted of the implementation of key IT projects of the State Customs Service in accordance with the Strategic Plan for Digitalisation, including the Automated Customs Clearance System (ACCS), the Customs Decision System (CDS-UA), the Single Window for International Trade (SWIT), the Guarantee Management System, NCTS, the Import Control System (ICS2), the Automated Export Control System (AES), the Integrated Customs Tariff (ITMS), the EORI2 and AEO subsystems, and the Counterfeit and Piracy Control System (COPIS).
- The adequacy of financial and human resources for the effective implementation of the provisions of the Long-Term National Strategic Plan for Digital Development of the State Customs Service based on MASP-C was assessed.

#### 4. Expert assessment and generalisation:

- Based on the analysis, an expert assessment of Ukraine's progress in the relevant areas was carried out, and consolidated conclusions and proposals were prepared aimed at promoting Ukraine's integration into the EU Customs Union and eliminating key gaps in compliance with and management of customs processes.

#### → Sources of information:

The report is based on an analysis of a wide range of sources of information, including:

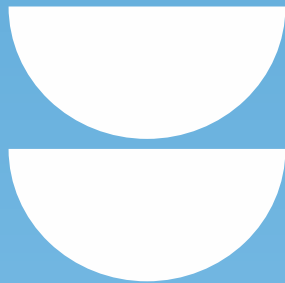
- Official regulatory and legal acts of Ukraine and the European Union.
- Official reports and publications of the State Customs Service of Ukraine.
- The European Commission's 2024 enlargement report.
- Data from the State Treasury Service of Ukraine.
- Statistical data on customs clearance and control.
- Results of public consultations and meetings with business and public representatives, interviews, surveys and focus groups with business, the public and customs authorities (where applicable).
- Materials from relevant international organisations (World Customs Organisation, International Monetary Fund, European Union Advisory Mission in Ukraine (EUAM), EUBAM Mission).
- Results of previous studies and reports in the customs field.

#### → Limitations of the study:

The report is based on publicly available information and data provided in response to requests. In some cases, the lack of complete and timely information, in particular regarding the details of the implementation of individual IT projects and subordinate legislation, may have affected the depth of certain aspects of the analysis.

#### → Time frame of the study:

1 January 2024 — 27 June 2025.



# I. HARMONIZATION OF LEGISLATION WITH THE EU ACQUIS



## 1.1. Progress with alignment of Ukrainian customs legislation with the EU acquis

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### 1.1.1. Review of provisions and analysis of amendments to the Customs Code of Ukraine under Law [3926-IX](#)

On 22 August 2024, the Verkhovna Rada of Ukraine adopted Law No. [3926-IX](#) “On Amendments to the Customs Code of Ukraine for the Implementation of Certain Provisions of the Customs Code of the European Union” (hereinafter — the Law No. [3926-IX](#)).

The [Law](#) introduces the following key changes:

- the incorporation of new definitions into the Customs Code of Ukraine;
- the introduction of the concept of customs representation, with a distinction made between direct and indirect representation;
- amendments to the regulation of certain customs procedures, including the replacement of permits with authorisations, and the specification of conditions for their application, completion, and revocation;
- the establishment of requirements for obtaining authorisations and permits for specific types of customs-related activities.

While a number of provisions entered into force on 19 October 2024, the majority of the law’s provisions took effect on 19 April 2025.

According to the explanatory note accompanying the draft law, these amendments are intended to ensure the alignment of Ukrainian customs legislation with several EU legal instruments. These include, in particular, the provisions of the [Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part](#), as well as [Regulation \(EU\) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code](#), and [Commission Delegated Regulation \(EU\) 2015/2446 of 28 July 2015 supplementing Regulation \(EU\) No 952/2013](#).

However, a comparison of the adopted text of Law No. [3926-IX](#) with the corresponding EU legal acts reveals a number of discrepancies in the formulation of individual provisions.



## General observations on the amendments:

- [Regulation \(EU\) No. 952/2013](#) does not impose an obligation on customs representatives to obtain authorisation in order to carry out representation activities. By contrast, the amended Customs Code of Ukraine, as introduced by Law No. [3926-IX](#), requires Ukrainian customs brokers to apply for an authorization meeting certain AEO-criteria to *act on behalf of clients* in the declaration of goods. It is important to clarify that prior to these amendments, customs brokers in Ukraine operated under various approval and registration regimes. The abrupt transition to a full authorization model (especially one built around AEO-style criteria) was introduced without a transparent rationale. The Ministry of Finance explicitly referred to EU alignment as the justification, yet failed to articulate which specific EU provisions necessitated such a shift, or how this model improves quality of service or safeguards compliance;
- in contrast to the concise and cohesive structure of the EU Customs Code, Law No. 3926-IX disperses the transposed provisions across multiple interrelated articles, which introduces unnecessary complexity and complicates legal interpretation and application;
- certain provisions give rise to legal uncertainty, leaving room for arbitrary interpretation. For instance, the provision prohibiting the acceptance of customs declarations in the event of the revocation of a customs broker's authorisation lacks clarity. Likewise, the introduction of the term "customs representation service", which is not defined in the Customs Code, further contributes to interpretive ambiguity;
- the revised version of the Code narrows the scope of post-clearance controls, limiting it to pre-audit analysis of customs declarations and documentary checks of compliance with customs legislation — specifically with regard to the accuracy, timeliness, completeness, and payment of customs duties. As demonstrated in section 3.4 of this report, this may have questionable effectiveness compared to the form of post-customs control that existed prior to the adoption of these changes.

To ensure the effective and timely implementation of this law, the Cabinet of Ministers of Ukraine, the Ministry of Finance, the State Customs Service, and other relevant central executive authorities are required — within six months of the law's publication (i.e. by 19 April 2025) — to draft or update the necessary secondary legislation. The following subsection provides an analysis of the development and adoption of these regulatory acts.

### 1.1.2. Analysis of developed and enacted subordinate regulatory acts related to the provisions introduced by Law No. [3926-IX](#)

As of mid of June 2025, almost 2 months after the halfyear transition period expired, it can be stated that **the responsible authorities have not yet approved the necessary amount of bylaws and regulations**. The website of the Ministry of Finance of Ukraine (MoF) contains only a partial list of draft regulations to be adopted either by the Ministry or by the Cabinet of Ministers. Public interactions and communication with the business community regarding the development of this regulatory framework remain insufficient.

#### → **CMU plans for the implementation of Law 3926-IX**

To implement the provisions of Law 3926-IX, on 30 October 2024, the Cabinet of Ministers developed and approved a Plan for the preparation of draft acts and the implementation of other tasks (hereinafter referred to as the Plan). The document contains 36 measures. They are divided into provisions (tasks) to be implemented:

- directly by the CMU;
- by executive authorities (mainly the Ministry of Finance and the State Customs Service).

Each measure has its own internal deadline and a responsible body or structural unit of the Secretariat of the CMU. At the same time, the main role in the Plan is assigned to the Ministry of Finance of Ukraine, as the central executive body that forms and implements state customs policy.

In terms of content, almost all items in the Plan, with one exception, contain measures that require the development and subsequent implementation of draft regulatory acts. We monitored the implementation of these measures and the communication of the adopted regulatory acts to stakeholders.

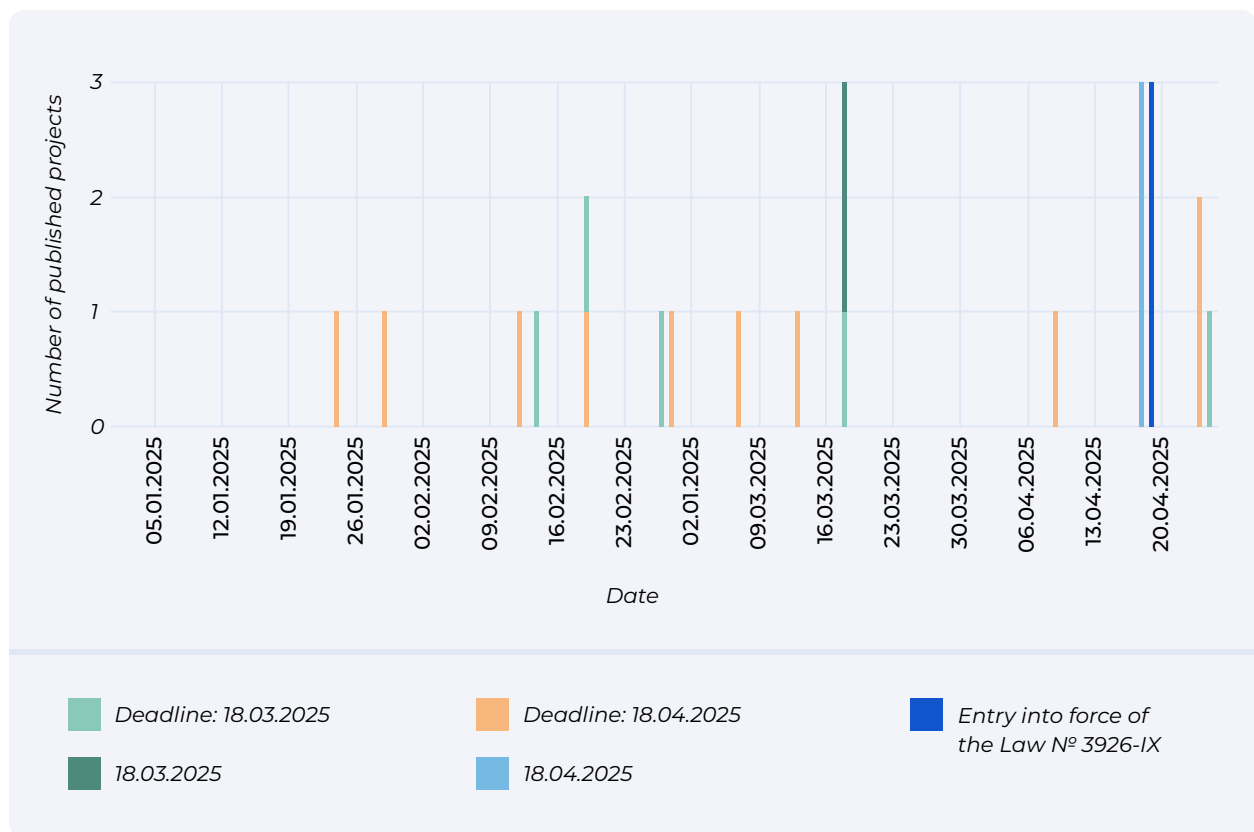
#### → **Ministry of Finance plans for drafting regulations**

In addition to the above-mentioned CMU plan, the Ministry of Finance has its own plan for preparing draft regulations that goes beyond customs issues. The Ministry of Finance prepares these plans annually and makes changes as necessary, adding new measures or shifting the deadlines for drafting regulations.

Initially, all measures for the development of draft acts for Law 3926-IX were included in 2025. It should be noted that work on some of them could have been started as

early as 2024 to avoid a significant workload. In addition, 24 measures of the Plan relating to Law 3926-IX (essentially 24 draft acts) were included in the Plan with a common deadline — the first quarter of 2025. In practice, this means that, on average, one act had to be drafted faster than every three working days. In addition, almost all drafts would also have to undergo public consultation, which would require at least 15 calendar days.

Obviously, with the arrival of 2025, the Ministry of Finance of Ukraine realised that it would not be able to develop and implement all subordinate legislation on time. Therefore, the Ministry began to make changes to its own plan for preparing acts, shifting the deadlines for a dozen of them to the third quarter of 2025. The unsuccessful planning of the preparation of draft acts caused a domino effect on other subsequent processes.



**Graph 1.1.1. Publication of draft by-laws related to the Law of Ukraine № 3926-IX (as of 05.06.2025)**

The publication of draft acts was sometimes carried out “under deadline pressure”. In addition, as can be seen in the graph, draft acts were also published after the law had already come into force. As of early June 2025, 12 draft subordinate acts were published on time, 3 acts were published after the deadline, and 10 subordinate acts are awaiting publication (presumably in the process of development and approval).

## **Public consultations**

The Ministry of Finance also published reports on public consultations for those draft acts that were subject to public consultation. It is noteworthy that none of the reports contain any proposals or comments on the draft acts proposed for discussion.

On the one hand, this may indicate a lack of interest on the part of businesses and relevant experts in participating in and discussing the drafts. However, this statement seems doubtful given that after the law came into force, businesses and the relevant public expressed widespread interest, and online explanatory events held by the authorities had more participants than the technical capabilities of the platform allowed.

On the other hand, stakeholders may be poorly informed about the consultation process conducted by the Ministry of Finance of Ukraine, resulting in a number of practical problems in law enforcement.

## **Case**

On March 31, 2025, at the request of the Public Council under the Ministry of Finance of Ukraine, representatives of the Ministry of Finance and the State Customs Service held an [online meeting](#) with business and public representatives to present the amendments to the Resolution of the Cabinet of Ministers of Ukraine No. 1092 dated September 27, 2022 “Some issues of implementation of the provisions of the Customs Code of Ukraine on the provision of authorizations”.

It is worth noting that the State Customs Service and the Ministry of Finance did not announce the event in their communication channels, and the Ministry of Finance published the [news](#) only after the meeting. Only during the presentation the text of the draft law was provided, which at that time had not yet been approved by other executive authorities. Nevertheless, more than 350 people attended, which indicates strong business interest despite the lack of broad public communication.

The potential number of participants affected by the changes is several thousand. At the same time, the live broadcasts explaining the innovations in customs legislation gathered more than 1,000 participants in one event. Due to the limitations of the platform on which these explanatory sessions were held, not everyone was able to join the broadcast and ask questions.

As for the draft resolution itself, the following is worth noting in summary. The key element of the Ministry of Finance’s current approach to expanding the AEO system appears to be based on an overestimation of the strategic importance that

Ukrainian businesses assign to customs operations. However, this approach appears to rest on a misreading of how the customs function is actually perceived and structured within Ukrainian enterprises.

In practice, the customs function is rarely viewed by Ukrainian businesses as strategically significant. Several indicators support this:

- few companies — if any — have dedicated customs directors;
- the responsibility for customs compliance is commonly outsourced to customs brokers rather than maintained in-house;
- when present internally, customs matters are typically handled within logistics or supply chain departments, not finance or executive management.

Despite this reality, the Ministry of Finance seems to assume that customs operations are central enough to enterprise strategy that businesses will meaningfully restructure internal processes solely to obtain AEO certification.

This assumption is difficult to justify. It not only overlooks how marginal the customs function is in most business models but also risks creating additional compliance burdens without a corresponding incentive. Rather than stimulating interest in the AEO programme, this approach may contribute to its stagnation by imposing disproportionate expectations that are out of step with how businesses operate on the ground. In summary, by overestimating the business relevance of customs procedures, the Ministry's current approach risks discouraging AEO uptake, potentially leading to stagnation rather than growth in certification rates.

Regarding the Ministry's spoken justification for not publishing draft regulations on its official website for public consultations earlier, two points are worth highlighting:

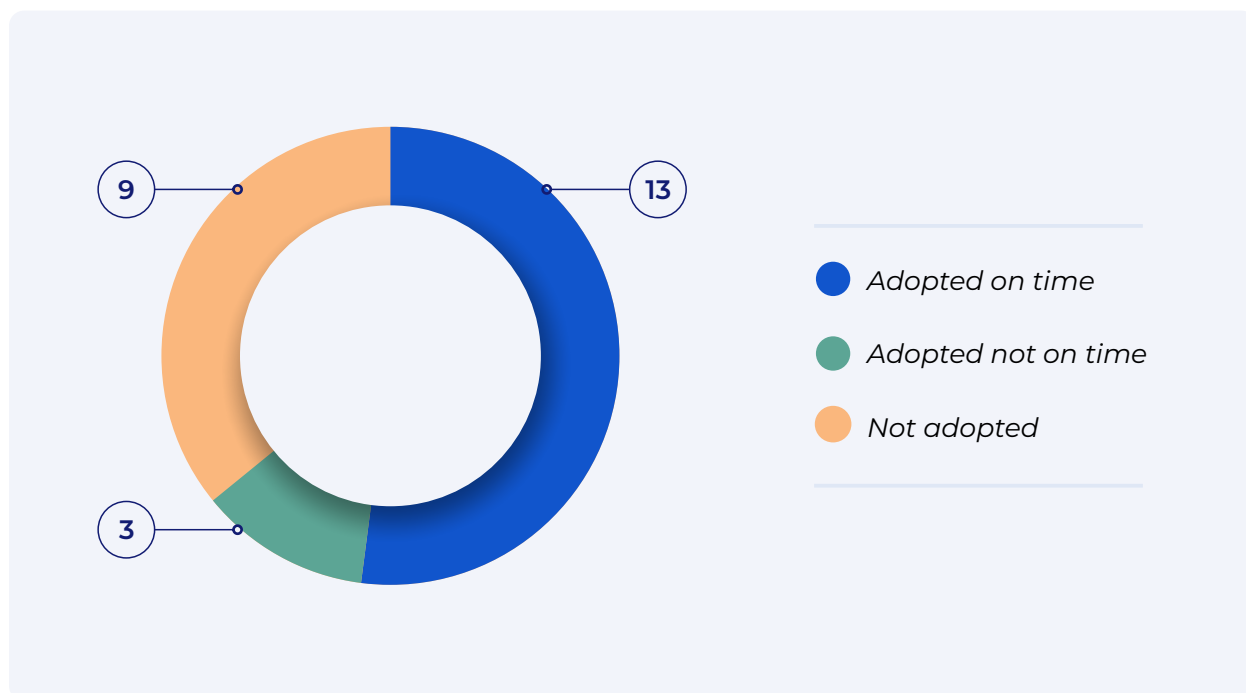
- The Ministry presents these sub-legislative acts as part of the European integration process — emphasising their importance while simultaneously downplaying the need for publication and public discussion as part of regulatory best practice.
- Draft regulations are expected to be designed progressively and with practical granularity, enabling businesses to adapt. However, this approach has not been applied. The Ministry appears to consider engagement with small and medium-sized enterprises optional rather than essential.



Both of the above remarks demonstrate that bypassing public consultation ignores the EU-endorsed “[Think Small First](#)” principle, which could negatively impact the quality and appropriateness of regulatory frameworks. It is recommended that the Ministry of Finance review and revise its approach to the development of sub-legislative regulation. This revision should be grounded in the practical needs of enterprises and ensure the transparency of the regulatory environment — both of which are essential to the successful implementation of European integration reforms.

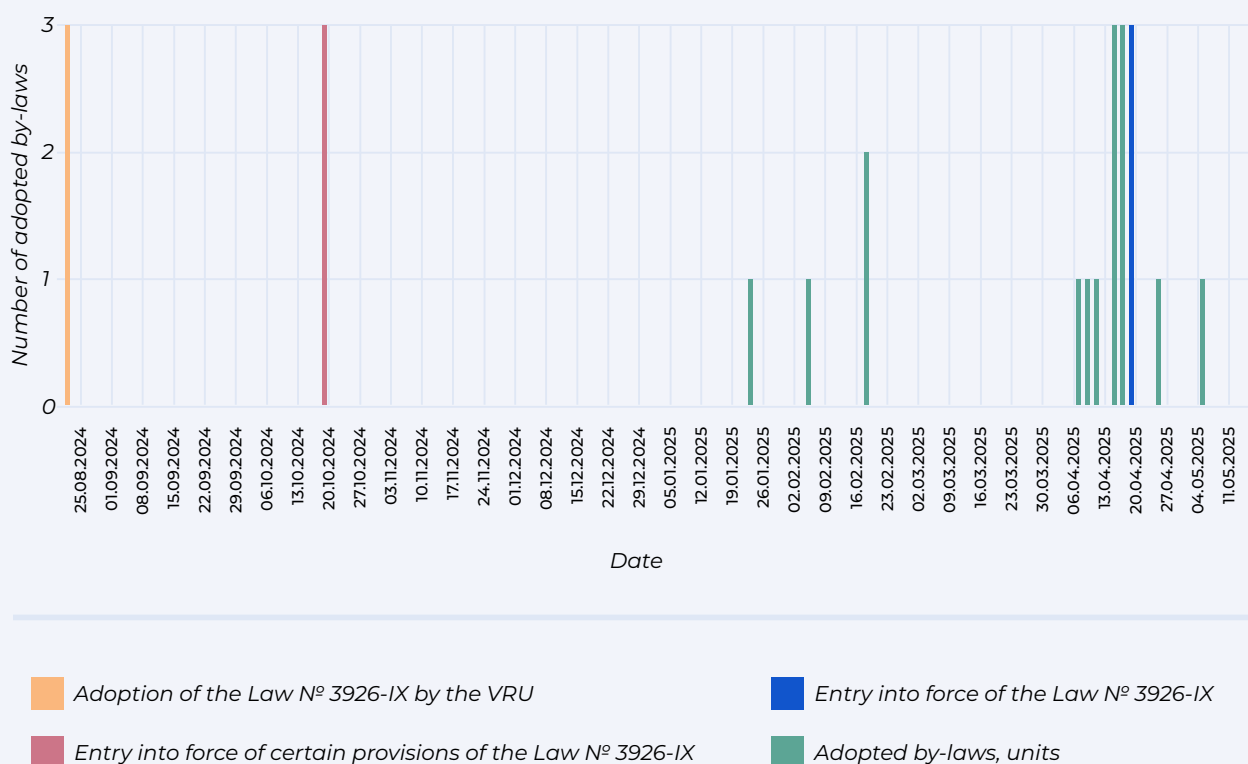
### → **Adoption and entry into force of regulatory acts**

As of early June 2025, it can be stated that the requirements of the law regarding the development and timely entry into force of subordinate acts have not been fulfilled.



**Chart 1.1.1. Breakdown of by-laws related to the Law of Ukraine № 3926-IX upon their adoption time (as of 05.06.2025)**

Of the 25 subordinate regulatory legal acts required, only half were approved on time. One in three acts from the list of required acts was not adopted at all, and three acts were adopted later than the planned date of approval.

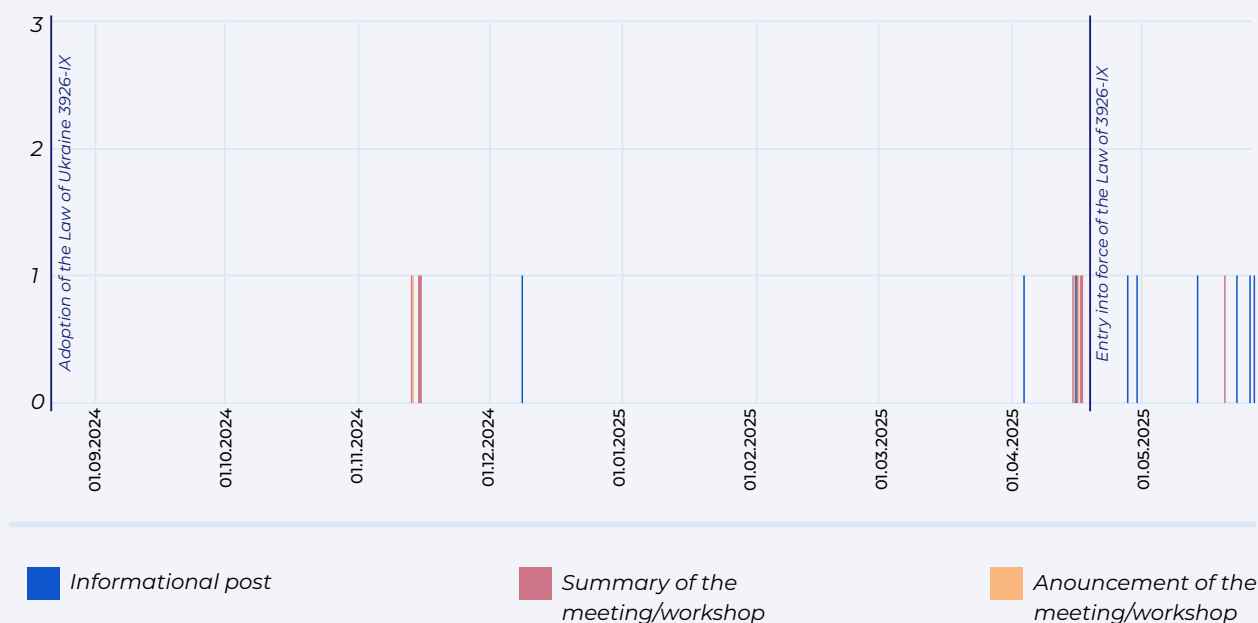


**Graph 1.1.2. Timeline of adoption of by-laws related to the Law of Ukraine N° 3926-IX (as of 05.06.2025)**

The timeline above shows that the lion's share of the approved acts were adopted by the Government or the Ministry of Finance of Ukraine in the days leading up to the entry into force of Law of Ukraine No. 3926-IX. In addition, the approval of subordinate legislation continued after 19 April 2025.

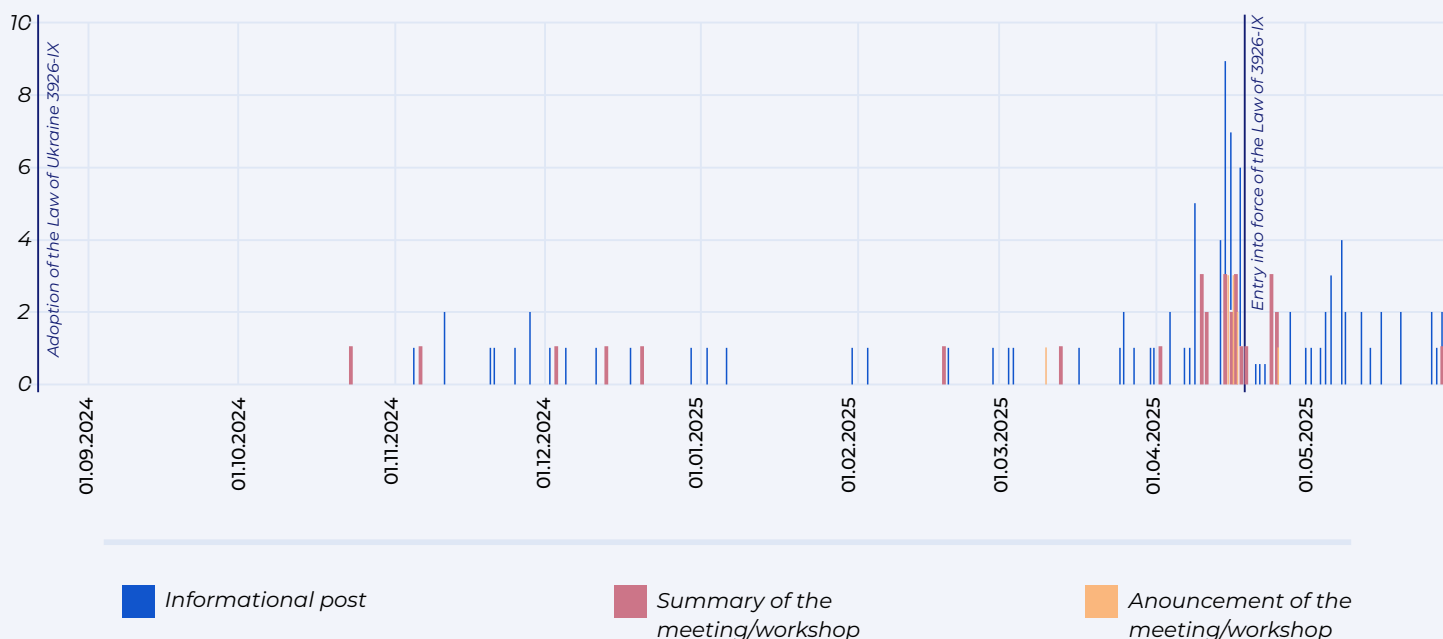
### → **Explanatory work**

Judging by the situation with the preparation of acts, customs was not ready to organise the process of practical explanations in advance. We conducted media monitoring of customs mentions of events for businesses regarding explanations of the new provisions, and as it turned out, almost all of them were held within a few days before or after the full entry into force of Law of Ukraine No. 3926-IX.



**Graph 1.1.3. Explanatory work of the central office of the State Customs Service on the changes introduced by the Law 3926-IX (as of 22.05.2025)**

The explanatory work of the central apparatus of the State Customs Service had an impact on the intensification of explanatory work by regional customs offices. It is noteworthy that the Ministry of Finance of Ukraine did not hold any official public events or provide any explanations. At the same time, a representative of the Ministry of Finance of Ukraine participated in the work of the State Customs Service.



**Graph 1.1.4. Explanatory work of regional customs on the changes introduced by the Law 3926-IX (as of 22.05.2025)**

For local businesses, most of the explanatory work by customs authorities was also carried out in the days immediately before or after the entry into force of Law of Ukraine No. 3926-IX.

### **Law enforcement issues**

The process of preparing and approving acts and organising explanatory work had a direct impact on business activities in the customs sphere.

The practical consequences that may result from this are the recently published results on the authorisation of customs brokers within the framework of the reform. More than a month after the law came into force, the first authorisation was received. As expected, it was received by a company that has experience in conformity assessment and valid authorisation (AEO-C). Looking at the overall results, they are more interesting to study: out of nearly 100 applications, half were rejected at the preliminary review stage, indicating either a low level of readiness among the professional community (customs brokers) or complex procedures that are a barrier to obtaining authorisations.

In addition, there were also unresolved issues for other groups of entities: the powers of indirect representatives, the inclusion of information on the general declaration of arrival, customs procedures, in particular the extension of the temporary importation regime, the specification of the procedure for guaranteeing goods stored in customs warehouses and temporary storage warehouses, etc.

Some of the above issues were resolved by the Verkhovna Rada of Ukraine through the adoption of Law of Ukraine No. 4473-IX dated 04.06.2025:

- **expansion of authorized customs representatives**

The regulatory framework has been expanded to permit both direct and indirect customs representatives to process imports under tariff preference schemes. This structural change significantly broadens the pool of qualified participants in the customs clearance process.

- **operational simplifications extended through April 2026**

Current simplified procedures remain in effect until April 18, 2026, allowing goods to be placed under customs regimes requiring authorization without quantitative or value-based restrictions on declarations.

- **temporary storage facility obligations**

The regulatory framework has clarified financial guarantee responsibilities for customs payments on goods already present in temporary storage facilities when previous legislation took effect.

However, the process of resolving the situation with regulatory and legal regulation is still ongoing.

In summary, the authorities had the opportunity to use the six-month transition period to their advantage: while the Ministry of Finance had to develop and implement subordinate regulatory and legal regulations, the customs service had time to study procedural issues, prepare practical explanations and training materials, and draw up a plan for discussions and consultations.

### **1.1.3. Overview and analysis of the draft of the new Customs Code of Ukraine, fully harmonized with the EU Customs Code**

#### **→ On the importance and risks in developing the Customs Code of Ukraine**

The current Customs Code of Ukraine (CCU) differs from the Union Customs Code (UCC) — not only in terminology or structure, but in core concepts. Several fundamental features of the UCC are entirely absent from the Ukrainian framework (e.g., “customs debt” and “customs services”), while others differ in scope and language. For instance, the term “customs representative” under the UCC is rendered as “customs broker” in Ukraine; “post-release control” becomes fragmented into “post-clearance control” and “documentary checks”.

As a result, upon accession to the EU, Ukraine’s customs legislation will likely consist of three major components:

- 1 Union Customs Code** and related EU delegated legislation, which will have immediate legal effect;
- 2 Procedural regulations** necessary for the implementation of the first block in practice (e.g., rules for inspections, customs valuation checks, and sampling procedures);



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**3 Provisions governing the status, authority, and organisation of customs authorities**, along with certain areas left to the discretion of Member States.

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It is evident that aligning Ukraine's customs legislation with the UCC as early as possible is of critical importance. This would allow customs authorities, the business community, and the judiciary to become familiar with new terminology and procedures in advance-ensuring that the eventual entry into force of UCC provisions is as smooth and effective as possible.

The shortcomings of Law No. [3926-IX](#), as discussed earlier, underscore that current attempts to merge UCC principles into the existing CCU through a hybrid model are not producing the intended outcomes. Rather than creating a clear and coherent legal system, the revised Code has introduced legal ambiguity and set the stage for potentially disruptive conflicts of interpretation.

This was discussed by the Public Council under the State Customs Service on 8 May 2025, in particular by the Committee on the Practical Application of Customs Legislation and the Committee on Logistics and International Transport. Representatives of both committees [recorded appeals](#) from businesses and forwarded them to the authorities. In addition, the representatives emphasised that businesses feel they are not sufficiently informed about the changes and pointed to the lack of clear and unambiguous explanations (with specific examples) from the State Customs Service to both foreign economic activity entities and customs officers regarding the enforcement of customs legislation.

In addition, it was decided to:

- approach the State Customs Service with a proposal to hold explanatory webinars with the participation of the public and business representatives;
- to create a joint working group of committee representatives and representatives of the State Customs Service to monitor the enforcement of the law in practice;
- to recommend that the State Customs Service post answers to questions from businesses on the official website of the authority.

In this context, it is equally important to emphasise the role of structured dialogue. Regular consultations, meetings, and discussions with the business community and civil society are essential in shaping the new Customs Code. These interactions can help identify practical risks early, provide for a smoother transition period, and ensure all stakeholders are properly informed of key changes. Incorporating business

perspectives can lead to better regulatory quality and improve long-term compliance. The Public Council should execute a key function as an independent platform for such dialogue. In parallel, a legal knowledge base offering clear interpretative guidance on customs legislation would benefit stakeholders, support the State Customs Service in ensuring consistent application of norms, and reduce the overall administrative burden.

### **Status of development of the new Customs Code**

As of end of June 2025, work on drafting a new Customs Code of Ukraine remained in progress, yet there are strong indications of mounting difficulties within the Ministry of Finance. The drafting process began in late February 2024, with the establishment of 15 expert teams and the first working meeting held in [March](#), yet since then public updates remained limited, inconsistent, and at times contradictory.

Initial statements by key stakeholders, including Deputy Minister Yuriy Draganchuk in [July 2024](#), suggested that the draft Code would be published by the end of 2024. [By early 2025](#), the Ministry's updated timeline projected draft completion in April, public consultation in May, and submission to the Verkhovna Rada by the end of August. Despite prior public expectations by the Deputy Head of the State Customs Service that it would be made available in early May, as of end of June 2025, the draft had not been published for review.

While the substantive content of the future Code is non-negotiable as full compliance with the UCC is a condition of EU accession, the critical issue lies in the manner of legal transposition. The experience with Law No. 3926-IX has already demonstrated that poor drafting, limited consultation, and technical inconsistencies can significantly undermine implementation. It highlighted that the quality of transposition, i.e., “how” EU norms are embedded into national legislation, is just as important as the formal obligation to adopt them. In this context, broad and early public consultation remains the most effective safeguard against legal and operational disruption — yet current signals suggest that this stage may be narrowed or delayed.

The development of the new Customs Code must also reflect the lessons learned from Law No. 3926-IX, that selectively adapting EU norms while embedding them into a structurally inconsistent national framework introduces more complications than it resolves. A more effective approach would be the direct, article-by-article transposition of the Union Customs Code, with the aim of preserving maximum structural and terminological consistency — including alignment of article numbering wherever feasible. This not only facilitates legal certainty and comparability but also enables a smoother transition when EU membership is achieved.

On the other hand, it is also important to note that while the UCC provides a harmonised framework, it grants Member States discretion in several regulatory areas and does not prohibit Ukraine from introducing complementary benefits or broader facilitation measures, e.g. outside the strict customs domain.

While aligning Ukraine's customs legislation with EU standards is a government priority, political negotiations with some EU countries, as seen with North Macedonia case, could delay membership. Consequently, the potential benefits of immediate harmonization should be carefully weighed against the risk of yet not accessible Customs Union advantages, with even deterioration in some spheres, to avoid undermining Ukraine's interests. In this context, pursuing UCC alignment ambitiously but selectively is essential. Where the *acquis* allows national flexibility, Ukraine has the opportunity to build smarter, more resilient institutions that both comply with EU rules and serve the needs of domestic trade. Doing so will help ensure that alignment brings lasting value — even in the face of delayed accession.



## 1.2. Strengthening the Law Enforcement Function of the State Customs Service of Ukraine

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### 1.2.1. Analysis of the impact of criminalizing large-scale smuggling

The primary objectives behind the initiation and subsequent adoption of Law No. [3513-IX](#) by the Verkhovna Rada of Ukraine on 9 December 2023, titled “On Amendments to the Criminal Code and the Criminal Procedure Code of Ukraine”, were to combat illicit schemes involving the unlawful movement of goods across the border and to increase state budget revenues.

In addition to fiscal considerations, the authors of the legislative initiative highlighted a number of procedural challenges:

- the inability to establish certain elements of an offence within the framework of administrative proceedings;
- the lack of adequate powers for documenting and proving the circumstances of the offence;
- the longer duration of pre-trial investigations, as compared to administrative procedures, was seen as enabling a more thorough and effective collection of evidence.

The availability of the full range of criminal justice tools — including covert investigative and surveillance operations — to counter smuggling created expectations of a determined enforcement effort upon the law’s entry into force.

The adoption of legislation criminalising smuggling was also one of the European Union’s conditions for providing Ukraine with €1.5 billion in macro-financial assistance, which was disbursed by the European Commission on 21 December 2023.

According to the Office of the Prosecutor General, 78 criminal proceedings related to smuggling were recorded in 2024. Of these, 29 pertained to goods and 49 to excisable goods.

In 14 cases, notices of suspicion were issued to 19 individuals. In one case, pre-trial detention was applied as a preventive measure.

Eleven proceedings were submitted to court with indictments, while no decisions were made in the remaining 67.

Notably, 3 proceedings were initiated under aggravated offences (Part 3 of Articles 201-3 and 201-4 of the Criminal Code), i.e., smuggling committed by organised criminal groups. According to nine-month data for 2024, the total value of smuggled goods and excisable products amounted to UAH 223.3 million. Of this amount, tobacco products accounted for 50% of the total value of smuggled goods, and 93% of the value of smuggled excisable goods.

The Bureau of Economic Security of Ukraine (BES) is conducting investigations in 73 cases — 27 concerning goods and 46 concerning excisable goods. Furthermore, 30% of all criminal proceedings investigated by the BES were initiated following the identification of smuggling indicators during customs controls conducted at border crossing points.

### **Results of court proceedings**

**In 2024, only 3 convictions were delivered in cases involving smuggling of goods:**

- On 10 July 2024, the Volodymyr-Volynskyi City Court of Volyn Oblast delivered a verdict in a case concerning the smuggling of seven vehicles disguised as humanitarian aid, valued at UAH 1,780,096. The judge approved a plea agreement and imposed a fine of UAH 340,000.
- On 19 November 2024, the Hlyboka District Court of Chernivtsi Oblast convicted three carriers for smuggling tobacco products. Trucks carrying cigarettes crossed the border as “empty” and returned to Ukraine with fuel. Despite the organised and large-scale nature of the operation, only the drivers were convicted, each receiving a monetary fine.
- On 27 December 2024, the Berehove District Court of Zakarpattia Oblast approved a plea agreement and issued a guilty verdict to a resident of Mukachevo for the smuggling of goods. The defendant was found to have moved items (tablets, hair dryers, and power banks) across the border concealed within legitimate cargo. The total value of the smuggled goods was UAH 9.8 million. The court imposed a fine of UAH 249,985.

In 2025, one conviction was recorded for goods smuggling. The case concerned the smuggling of cigarette filters valued at UAH 15,008,400 — a significant amount. The court imposed a fine equivalent to 12,000 tax-exempt minimum incomes (UAH 204,000).

## **Conclusions**

The initial results of the application of the law appear to have fallen short of the expectations of both the public and the legitimate business community, particularly in view of:

- the overall number of proceedings initiated;
- the absence of large-scale smuggling interdictions;
- the lack of high-profile criminal prosecutions of organised criminal groups;
- the absence of convictions in such complex smuggling cases.

It is important to underline that the SCS does not currently hold investigative or enforcement powers in relation to smuggling offences. As such, it is not directly involved in the initiation or conduct of criminal proceedings under the new legislation. Responsibility for pre-trial investigations lies primarily with the BES and, in certain cases, other law enforcement bodies. The statistical outcomes presented above therefore reflect the performance of those agencies, not the customs service. This institutional limitation further underscores the need to clearly define roles and ensure accountability across all enforcement actors.

## **Further proposals**

- 1 Continue systematic monitoring of criminal proceedings and the outcomes of investigations and court hearings.
- 2 Initiate an interagency consultation to address issues of legal interpretation and enforcement, particularly regarding the definitions of repeated offences and large-scale smuggling.
- 3 Conduct stakeholder engagements with the private sector, including industry associations representing high-revenue sectors (e.g., consumer electronics, excisable goods), to gather intelligence and coordinate responses to major smuggling schemes.



### **1.2.2. Review of progress in granting operational-search powers to the State Customs Service, particularly concerning large-scale smuggling**

The provision of operational-search and investigative powers to customs authorities is explicitly referenced in the [National Revenue Strategy](#), approved by the Cabinet of Ministers of Ukraine by Resolution No. 1218-r of 27 December 2023.

According to the Strategy's authors, criminalising the offence of unlawful movement of goods will only be effective if customs authorities are also granted the right to conduct operational-search activities (OSA) and to carry out pre-trial investigations in smuggling cases.

The need to strengthen the institutional capacity of the State Customs Service (SCS) has been consistently emphasised by representatives of the European Union Advisory Mission to Ukraine (EUAM) and the European Union Border Assistance Mission to Moldova and Ukraine (EUBAM). The World Customs Organization (WCO), in its technical mission reports of December 2022 and August 2023, also identified as urgent the inclusion of the SCS among bodies authorised to carry out operational and investigative functions.

The Strategy specifically foresees granting operational-search activities (OSA) powers to the internal security units of the SCS to improve the detection of misconduct by customs officers and their potential involvement in facilitating customs violations.

The inclusion of this provision in the Strategy also stems from recommendations found in various international documents. The International Monetary Fund, in its report *Ukraine: Customs Reform within the National Revenue Strategy* (September 2023, by Enrico Aav, János Nagy, and Urmas Koidu), stated:

“

In addition to the criminalisation of goods smuggling, the role and powers of the customs service should be reconsidered. Customs must play a central role in detecting and prosecuting smuggling and other serious customs-zone offences.

Furthermore, the Ukraine Facility includes provisions for the development and implementation of a comprehensive customs reform, including harmonisation with EU legislation (notably, the criminalisation of large-scale smuggling), digitalisation of customs procedures, and the introduction of anti-corruption tools.

**The European Commission's 2024 Enlargement Report on Ukraine also noted:**



It is important that the customs authority is granted with adequate enforcement powers and has a capacity to be directly engaged in intelligence gathering activities and contribute to pre-trial investigation in cases of smuggling of goods. It is expected that the State Customs service, like other law enforcement agencies, will take part in the comprehensive digitisation of pre-trial investigations and prosecutions in criminal cases at national level.

Granting law enforcement status to customs authorities — entitling them to carry out operational-search activities and pre-trial investigations — would require connecting the SCS to national data and information systems or the development and implementation of their own.

In particular, investigative bodies must have access to the Unified Register of Pre-Trial Investigations, administered by the Office of the Prosecutor General.

OSA powers would also require the SCS to establish its own “Information Centre”, connected via the Security Service of Ukraine to the Ministry of Internal Affairs’ Information Centre. This would enable access to data on criminal records, active OSA cases, and the status of individuals as intelligence sources.

Granting investigative powers to customs authorities may have a positive impact on combating customs-related fraudulent and illegal activity, in particular:

- 1 Direct access to intelligence: Customs units would be able to independently collect, analyse, and act upon intelligence related to smuggling operations.
- 2 Detection of organised crime: OSA capabilities would facilitate the identification and dismantling of national and transnational smuggling networks.
- 3 Reduction of corruption risks: Empowering internal security units with OSA tools would help prevent and respond to corruption within the SCS itself.
- 4 Optimisation of anti-smuggling resources: Independent investigative capacity would reduce reliance on other law enforcement bodies and avoid duplication of functions.
- 5 Alignment with EU and international Practice: Customs authorities in many EU Member States already possess OSA powers, enabling closer cooperation and access to intelligence from international partners.

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- 6** Improved interagency coordination: A more robust SCS could more effectively collaborate with border guards, the police, and other enforcement agencies.
- 

However, there are also significant challenges associated with granting investigative powers to the SCS:

### **1. Legal Status of the Customs Authority.**

Recognising the SCS as a law enforcement body would have significant implications for:

- Its governance and functional structure;
- Interactions with other law enforcement institutions;
- Material and technical support requirements;
- Legal and social status of personnel, including pension schemes.

### **2. Establishment of Operational-Technical Units.**

This would necessitate the creation of specialised divisions with:

- Qualified staffing;
- Adequate infrastructure and equipment.

### **3. Human Resources.**

Ensuring competent staffing will be a core challenge, requiring:

- Recruitment and training of new personnel;
- Possible secondment of experienced officers from other agencies, who may bring incompatible practices or networks.

### **4. Development of an Informant Network.**

Effective OSA is not feasible without a trusted network of informants, which requires:

- Time to establish trust and cooperation;
- Financial resources;
- Skilled officers capable of building and managing such networks.

### **5. Expansion of Classified Document Handling Units.**

Search and investigative activities necessitate secure handling of classified documents and expanded secure access operations.

## **6. Conceptual Conflict.**

Granting the SCS law enforcement powers may conflict with the original rationale for establishing the Bureau of Economic Security (BES), which currently performs both OSA and investigative functions. Synchronisation of mandates, structure, and procedures between the two bodies would be required.

## **7. Fiscal Burden.**

Implementing OSA within the SCS would place significant strain on the state budget due to:

- Creation of new units;
- Staff training and recruitment;
- Acquisition of necessary equipment and technologies.

## **8. Institutional Readiness.**

The SCS currently suffers from several institutional weaknesses, including:

- Insufficient personnel;
- Inadequate technical infrastructure;
- Poor enforcement discipline and oversight.

At present, the SCS has drafted proposed amendments to the Customs Code, Criminal Procedure Code, and the Law of Ukraine “On Operational-Search Activities”, which have been submitted to the Ministry of Finance for review. In parallel, as part of the implementation of the Comprehensive Strategic Reform Plan for Law Enforcement Bodies within Ukraine’s Security and Defence Sector for 2023–2027 (approved by Presidential Decree No. 273/2023 of 11 May 2023), SCS representatives are participating in interagency discussions, including on this matter.

## **Proposals**

To address the identified challenges, it would be appropriate to launch a dedicated international technical assistance project focused on supporting the integration of OSA powers within the State Customs Service. The project could include the following components:

### **1. Institutional Reform:**

- design of the organisational structure of operational units within the SCS;
- definition of their roles and responsibilities in line with international standards.

### **2. Legislative Development:**

- review of existing legislation to assess feasibility of OSA integration;
- drafting of amendments to laws and regulations to clarify powers, methods, and safeguards;
- harmonisation with EU and international law enforcement frameworks.

### **3. Technology and Infrastructure:**

- procurement and deployment of necessary technical equipment;
- establishment of secure access to databases and information-sharing systems with domestic and international partners.

### **4. Human Resources:**

- recruitment of qualified staff for operational units;
- development of training and retraining programmes on OSA methods;
- establishment of experience-sharing mechanisms with customs agencies from countries with similar powers;
- use of training centres for continuous professional development.

### **5. Interagency and International Cooperation:**

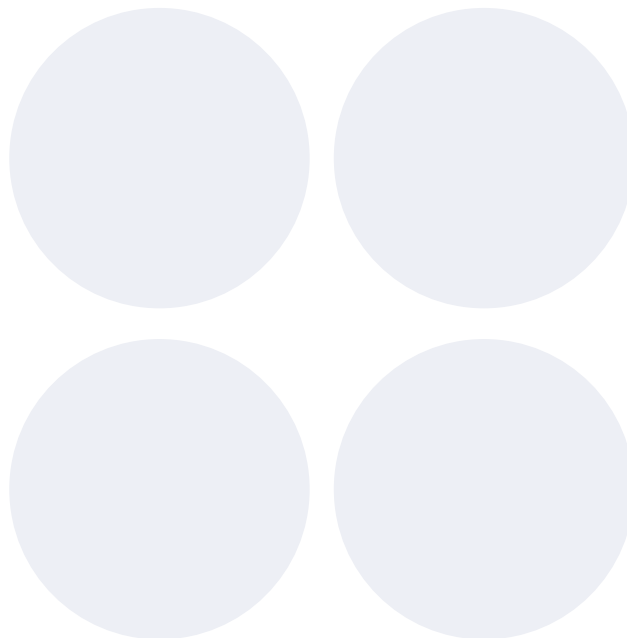
- formalisation of interagency coordination protocols;
- conclusion of mutual assistance and information-sharing agreements with foreign customs and law enforcement agencies;
- engagement with international organisations such as the EUROPOL WCO, OLAF, and INTERPOL;
- participation in joint international operations targeting transnational crime, including smuggling.

## **6. Monitoring and Evaluation:**

- development of key performance indicators (KPIs) to assess both the overall impact of granting OSA powers and the performance of operational units;
- regular audits to identify gaps and improvement areas;
- reporting progress to international partners.

## **7. Public Communication and Business Engagement:**

- informing the public about new customs functions and their role in economic security;
- designing safeguards to prevent abuse of OSA powers and to protect the rights of legitimate businesses.





### 1.3. Alignment of Legislation on Other Selected Regulatory Acts

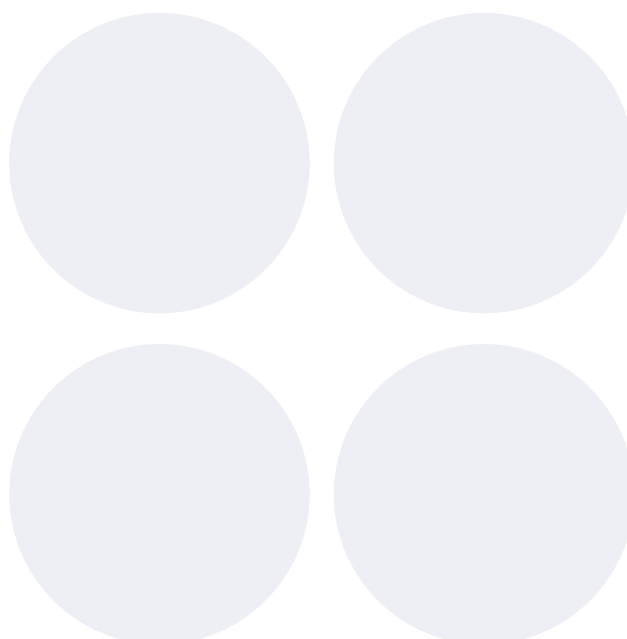
In 2024, Ukraine continued its efforts to align national customs legislation with the legal acts of the European Union. The table below presents an analysis of the implementation of EU law under Chapter 29 (Customs Union) into Ukrainian legislation. It compares the status of key EU regulations at the beginning of 2024 and the beginning of 2025. Overall, progress in transposing these acts has been very slow and requires significant acceleration.

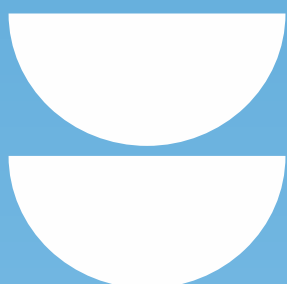
**Table 1.3.1. Progress in the Implementation of EU Customs Legislation in Ukraine in 2024**

EU Regulation	Status at the beginning of 2024	Status at the beginning of 2025
<a href="#">Regulation (EU) 2018/1672 on the control of cash entering or leaving the Union</a>	The Regulation had not been transposed into Ukrainian legislation, although certain provisions — such as the €10,000 cash declaration threshold — were already reflected. However, many core EU requirements remain unaddressed, including the definition of “carriers”, mandatory declarations initiated by authorities, and the power to temporarily detain undeclared cash. Effective implementation requires stronger risk analysis and inter-agency cooperation, which are currently insufficient, despite limited data-sharing between authorities.	No notable progress in implementing the Regulation was observed in 2024.
<a href="#">Regulation (EU) No 608/2013 concerning customs enforcement of intellectual property rights</a>	The Regulation was successfully transposed into Ukrainian legislation. A dedicated IT system — the Customs Register of Intellectual Property Rights — was developed.	In 2024, the number of entries in the customs register of intellectual property reached 1,000. The Ukrainian Customs Service signed a memorandum of cooperation with REACT, a global Anti-Counterfeiting network.

<a href="#">Regulation (EC) No 1186/2009 setting up a Community system of duty reliefs</a>	<p>Despite several attempts to transpose this Regulation into Ukrainian law, none were successful. Nonetheless, certain exemptions provided for in Ukrainian legislation align with the Regulation's provisions.</p>	<p>In January 2025, a group of Members of Parliament introduced draft laws No. 12429 and No. 12430 to implement selected provisions (Articles 25–27) of the Regulation related to customs duties on imported postal consignments (international mail and express deliveries). These proposals sparked mixed reactions within Ukrainian society and the business community.</p> <p>The main concerns regarding the draft laws are as follows:</p> <ul style="list-style-type: none"> <li>• The draft laws cover only a limited portion of the Regulation (removing non-taxable thresholds for postal consignments), leaving most provisions unregulated.</li> <li>• Proper implementation would require customs administration to enhance its capacity for parcel inspections, but the existing resources are insufficient for this task.</li> <li>• Many sensitive defense-related goods sent in parcels would be subject to customs duties and VAT if the draft laws are adopted. This could negatively impact critical supplies, such as tourniquets and other tactical medical equipment.</li> <li>• Even if these draft laws are passed, they will not fully implement the Regulation, and further legislative efforts will still be needed.</li> </ul> <p>As of May 2025, the draft laws remain under consideration by Parliament without any progress. Their further status should be monitored.</p>
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<a href="#">Regulation (EC) No 273/2004 on drug precursors</a>		
<a href="#">Regulation (EC) No 111/2005 laying down rules for monitoring trade between the EU and third countries in drug precursors</a>	Regulation No. 273/2004 was included in the 2024 translation plan for aligning EU and Ukrainian legislation.	Implementation of the Regulations has not yet started, and Ukrainian legislation is still not aligned with them.
<a href="#">Council Regulation (EC) No 116/2009 of 18 December 2008 on the export of cultural goods</a>	The Regulation had not been integrated into Ukrainian legislation. The existing legal framework is outdated, not aligned with EU law, and hinders the development of a legal market for trading cultural goods.	No legislative changes concerning the export of cultural goods were introduced in 2024. The Customs Service recorded 156 cases of illegal trade in cultural items in 2024, with a total value of €81,320.





## II. ACCESS TO COMMON COMPUTERIZED CUSTOMS SYSTEMS



## 2.1. Implementation of the Strategic Digitalization Plan of the State Customs Service

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### 2.1.1. Implementation of Measures Defined in the Strategic Digitalization Plan of the State Customs Service for 2024–2026

The Strategic Digitalisation Plan of the State Customs Service of Ukraine for 2024–2026 (hereinafter — the Strategic Plan) is the foundational document outlining the sequence of steps for implementing modern IT solutions in the customs domain. Its structure is aligned with the EU’s Multi-Annual Strategic Plan for Customs (MASP-C), and it was formally approved in February 2024.

The previous Shadow Report recommended ensuring public accountability for the progress of each digitalisation project, prioritising full automation of customs processes (especially customs clearance), avoiding excessive fragmentation of IT systems, and focusing on improving user experience. It should be noted that the SCS is currently actively working on updating the Strategic Plan in line with the consultations with the EU. According to the SCS, the deadline for submitting the updated draft Plan to the Ministry of Finance is the end of June 2025.

Below is an overview of the implementation status of key IT projects under the Strategic Plan, based on data as of March 2025.

#### **Automated Customs Clearance System**

This remains one of the State Customs Service’s flagship IT projects. Ukraine continues to update its customs IT infrastructure with a focus on centralised architecture and phased rollout of new functionalities. Priority areas include automation of clearance for low-risk goods and enabling the redirection of customs declarations between different customs offices — an essential feature for the development of centres of expertise.

Despite the initial plan to launch full industrial operation by the end of March 2025, no official public information is currently available regarding the system’s actual development status or pilot implementation.

#### **Customs Decision System (CDS-UA)**

The CDS-UA system is identified in the Strategic Plan as a core component in transitioning to electronic document circulation in customs. It is intended to cover at least

ten types of customs decisions, including AEO authorisations, special simplifications, authorisations for special customs procedures (e.g., temporary admission, inward processing), and permits for customs brokers, temporary storage warehouses, and duty-free shops.

This functionality becomes especially important in light of amendments to the Customs Code, effective 20 April 2025, granting the State Customs Service new powers regarding authorisations. As of late March 2025, only operational functionality was related to the submission of AEO and simplification requests via the “Single Window for International Trade” portal.

Following the entry into force of Law No. 3926-IX, as of 29 April 2025, it became possible to apply for customs brokerage authorisations via the CDS-UA platform. In line with the same law and pending the adoption of relevant secondary regulations, the State Customs Service is finalising the necessary updates to CDS-UA to enable the submission of applications for additional types of authorisations. These include, in particular, those related to guarantors and special customs procedures under Article 404 of the Customs Code. Draft forms for these authorisations (subject to development by the Ministry of Finance) are currently undergoing interagency coordination.

At the same time, it should be noted that not all types of authorisations currently processed through CDS-UA fall within the scope of alignment with the EU. The list of authorisations covered by EU requirements is shorter, and over time, certain nationally specific functionalities may require revision or decommissioning to ensure compatibility with the EU Customs Decision System. As observed in the case of Ukraine’s Single Window (see below), there is a risk that, in the course of EU alignment, initially broad national systems may be scaled back or restructured to meet acquis requirements.

### ***Single Window for International Trade (SWIT)***

The SWIT project, launched in 2016, is a long-term initiative. One of its components, subproject 1.3.7, focuses on integration with Ukraine’s internal E-Permit system and alignment with the EU Customs Single Window. Implementation was scheduled from 2 October 2024 to 31 March 2025.

As of 1 May 2025, the Single Window enables submission and tracking of permits and certificates from more than ten ministries and departments, and provides a broad range of customs-related e-services for businesses and individuals. These include applications for AEO status, simplifications, and customs brokerage authorisations;



electronic load orders; binding information requests; and refund claims for advance payments and overpaid customs duties.

Given its scope and user functionality, Ukraine's Single Window is currently more advanced than the EU Customs Single Window in several aspects. While this demonstrates the country's digitalisation potential, it also creates a structural risk: if such asymmetry remains at the time of accession, Ukraine may be required to scale back or reconfigure its national systems to meet EU interoperability standards. This would be a paradoxical outcome — where progress in innovation is penalised by late-stage compliance — and underscores the importance of managing alignment in a way that protects national advances, particularly in light of the uncertain EU accession timeline discussed earlier.

### **Guarantee Management System (GMS-UA)**

While a guarantee management system already operates within customs clearance, its expansion under GMS-UA remains problematic. The implementation and training phase was scheduled to end in March 2025, with industrial launch planned for September 2025.

According to the SCS, in 2024 the GMS-UA interface was significantly improved to support reporting functions, enhance format and logical controls, and expand operational capabilities. Key developments included enabling the use of individual guarantees for instalment payments of customs duties, resolving visualisation of guarantee forms in PDF, and addressing critical issues related to automatic reservation and release of guarantees — including scenarios involving acceptance of unloading results at authorised facilities. Following the entry into force of Law No. 3926-IX and adoption of related by-laws, the State Customs Service is now finalising GMS-UA updates to ensure full compliance with the revised legal framework.

As with CDS-UA, the primary obstacle is not technical or organisational limitations of the SCS, but broader customs policy issues under the purview of the Ministry of Finance. In Ukraine, the guarantee mechanism remains legally and functionally tied to tax debt, administered by tax authorities. As a result, recovery of unpaid customs liabilities falls under fiscal jurisdiction rather than being managed as a distinct customs mechanism, contrary to EU practices.

In 2024, total tax debt arising from unpaid customs duties exceeded UAH 1 billion. The concept of “customs debt”, a core element of the EU Customs Code, is effectively ignored in current Ukrainian practice, preventing full implementation of GMS-UA despite technical readiness.



## → **NCTS Phase 5/6**

NCTS P5 was fully implemented in Ukraine in 22 April 2024 — earlier than in several EU Member States. It was launched on schedule and supports transit declarations under the common procedure, allowing Ukraine to participate fully in the EU transit system.

The development and implementation of NCTS Phase 5 were carried out in partnership with a third-party supplier of similar solutions for several other Common Transit Convention countries. Given that NCTS is an inherently intergovernmental system, the use of a proven, interoperable model developed by an experienced vendor contributed significantly to the project's timely delivery and alignment with EU technical standards. In addition to the Trader Portal developed by the contractor, the SCS also launched an integrated NCTS submission function via its national Single Window for International Trade, offering an alternative access point for declarants.

This marks one of the most successful digitalisation efforts in the customs domain over the past year. Development of Phase 6 is ongoing as of March 2025, and further progress is expected. However, detailed information on Phase 6's features or integration into Ukraine's national IT architecture has yet to be made public.

## → **Import Control System 2 (ICS2)**

As of March 2025, no public information is available on the development, testing, or functionality of ICS2, making it impossible to assess progress or infrastructure readiness. Given the later timeline for deployment, the system is likely still in early development. While ICS2 is intended to align with MASP-C, no updates have been released regarding actual coordination or integration efforts.

## → **Automated Export System (AES)**

Industrial rollout of the Automated Export System (AES) is scheduled for Q3 2025. As of March 2025, no public information has been released identifying AES as a fully developed standalone module. However, partial progress is reflected in the launch of the “Border Crossing Log” tool for maritime shipping, which digitises loading orders for port operations.

In March 2025, the “Single Window” portal introduced a feature allowing port operators to input their details into digital loading orders. Operators can now view both the order content and customs decisions related to it. An API is expected to be launched shortly to integrate port operator systems with customs systems. Although not

branded as AES, these steps represent incremental progress toward export process digitalisation, as recommended by the 2023 Parliamentary Temporary Investigative Commission on port reform.

While this tool demonstrates functional advancement, it must be noted that a lot of the existing procedural documents are not foreseen under the Union Customs Code (UCC) and are therefore incompatible with the EU legal framework. This underscores a broader structural challenge: it remains extremely difficult to implement and assess EU-compatible IT systems in a legal and procedural environment that has not yet been fully harmonised with the *acquis*. Nevertheless, the Border Crossing Log was developed in close alignment with the EU Customs Data Model, reflecting the SCS's deliberate efforts to approximate its systems to EU standards wherever possible. Although not UCC-compliant by design, the initiative illustrates the commitment to gradual technical convergence even in the absence of full legal integration.

### **Binding Tariff Information (BTI)**

The BTI module was launched ahead of schedule in March 2024, as noted in the previous Shadow Report. However, actual use remains limited. While businesses can technically apply for BTI rulings on tariff classification, data from March 2024 to April 2025 show only 15 BTI decisions issued.

In contrast, hundreds of classification decisions continue to be made during standard customs clearance, highlighting the persistence of a transaction-based approach rather than forward-looking classification in line with EU practices.

Of course, the availability of the tool does not, in itself, ensure that economic operators apply for BTI decisions or integrate them into their customs planning. Thus, from a policy perspective, this raises the question of whether the State Customs Service and the Ministry of Finance should more actively monitor and promote the use of such instruments.

### **Integrated Tariff Management System (ITMS)**

No public information is currently available on the ITMS project. Its absence from 2024 reports and communications raises questions about both its implementation status and its relevance to the current Strategic Plan. Given its role in tariff information, one would expect integration with TARIC or visible updates.

## → ***Economic Operators Registration and Identification Subsystem 2 (EORI2)***

EORI2 is intended as an updated system for registering and identifying economic operators in line with EU requirements. Industrial launch is scheduled for Q3 2025. As of March 2025, that deadline has not yet arrived, and no public information is available regarding development or testing.

## → ***Authorised Economic Operators (AEO) Subsystem***

Industrial launch of the AEO subsystem was planned for Q4 2024. As of December 2024, the CDS-UA system includes core functionality for submitting AEO applications, uploading supporting documents, tracking application status, responding to customs queries, submitting additional materials, and viewing current authorisations.

However, digitalisation of monitoring compliance with AEO criteria and other authorisation types remains incomplete. These processes are still largely manual and not regulated by IT solutions, despite the availability of electronic document submission channels.

## → ***Anti-Counterfeiting and Anti-Piracy System (COPIS)***

According to the implementation schedule, COPIS was due to enter industrial use by the end of 2024. As of March 2025, there is no public information on its development status or progress. This makes it impossible to determine whether implementation has begun.

Interestingly, COPIS — aside from ACCS — is the only digital module mentioned in the 2024 Activity Report<sup>3</sup> of the State Customs Service. The report notes that business analysis continued in Q4 2024 to explore integration mechanisms between COPIS and the IT system “Customs Register of Intellectual Property Rights”, despite Strategic Plan deadlines.

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<sup>3</sup> State Customs Service of Ukraine. The State Customs Service has started a phased implementation of the CDS.UA system for working with customs decisions.

[customs.gov.ua/en/news/novini/-20/post/derzhmitsluzhba-rozpochala-poetapne-vprovadzhennia-v-doslidnu-ekspluatatsiiu-sistemi-po-roboti-z-rishenniami-mitnikh-organiv-cds-ua-1812](https://customs.gov.ua/en/news/novini/-20/post/derzhmitsluzhba-rozpochala-poetapne-vprovadzhennia-v-doslidnu-ekspluatatsiiu-sistemi-po-roboti-z-rishenniami-mitnikh-organiv-cds-ua-1812)

## → **Unified User Management and Digital Signature System (UUM&DS)**

This project, per the Strategic Plan, is classified as requiring further research and coordination before full-scale implementation. Its aim is to establish a centralised system for authentication, authorisation, and access management for customs digital services.

Despite an initial implementation timeline of October 2023, as of March 2025, no public information has been released regarding UUM&DS launch or development status, making it difficult to assess its readiness or interoperability — despite its essential role in securing access to digital services.

At the same time, progress in integrating Ukraine's customs systems with EU platforms such as UUM&DS is closely tied to ongoing digital infrastructure efforts led by the Ministry of Digital Transformation, including the EU's recognition of Ukraine's electronic trust services, such as digital signatures and certificate authorities, as legally equivalent to those used in the EU.

## → **Conclusions**

Analysis of Strategic Plan implementation indicates that the key barriers are not primarily technical or organisational. In some cases, implementation has even outpaced the planned timeline, and certain systems already meet EU technical standards.

Rather, significant delays are evident in projects requiring active involvement from the Ministry of Finance — especially in the areas of policy design, legal regulation, and adoption of secondary legislation. Against this backdrop, proposals to transfer not only policy but also digital administration powers (e.g., customs database development and management) from the SCS to the Ministry of Finance appear counterproductive. Given the Ministry's limited institutional capacity to address regulatory bottlenecks, such centralisation risks creating new problems rather than solving existing ones.

Furthermore, as highlighted in the previous Shadow Report, regular review and updating of the Strategic Plan is not merely desirable — it is essential. Discrepancies between planned and actual actions, lack of synchronisation with parallel digital initiatives, and emerging needs (e.g., HR systems, IT tools for audits or customs offences) must be addressed through updated and integrated planning.

### **2.1.2. Analysis of the allocation of sufficient financial and human resources for the effective implementation of the Strategic Plan provisions**

The successful implementation of modern digital services in the customs sector directly depends on the state's ability to compete with the private sector for both talent and financial resources. Current conditions reveal a structural deficit in both the funding and human capital necessary to launch, maintain, and scale complex IT projects within customs administration.

The most acute challenge lies in human capital. As of 2025, the median salary for a junior developer in Ukraine's IT market stands at approximately \$935 per month, while mid-level specialists earn around \$2,500. Senior developers command salaries above \$4,700, and technical leads or system architects typically earn between \$5,000 and \$6,000. Against this backdrop, public sector positions — even at the managerial level — offer remuneration that rarely exceeds \$2,000, rendering government service inherently non-competitive. This effectively rules out the systematic development of high-performing internal teams capable of delivering complex systems such as CDS-UA, NCTS, or GMS-UA at speed and at scale.

The resource shortage extends beyond technical development to every supporting phase of project implementation — from drafting technical specifications to training personnel and supporting users. In many cases, critical project tasks are handled by customs inspectors who must balance these responsibilities with their day-to-day duties. This fragmented approach results in loss of context, inconsistent implementation, and limited adaptability of IT solutions.

On the financial level, the absence of a dedicated digitalisation budget line significantly exacerbates the issue. Funding is often dispersed among general administrative expenses or drawn from international assistance. This lack of transparent, forward-looking budget planning creates dependence on donor cycles and prevents multi-year planning for complex system transitions.

Under these conditions, the expansion of internal developer teams has not materialised. Moreover, existing personnel are increasingly exposed to additional risks due to aggressive mobilisation policies. At least one specialist from the customs IT development team is known to have been mobilised, raising serious questions about the effective use of such narrowly qualified expertise in a military context. Given that skilled IT personnel in the public sector number in the dozens — not hundreds — the logic of such decisions appears questionable from both a national defence and digital security perspective.

In light of these challenges, advancing the digital transformation of customs requires a strategic overhaul of approaches to both funding and human resource management. In particular, the following measures should be considered:

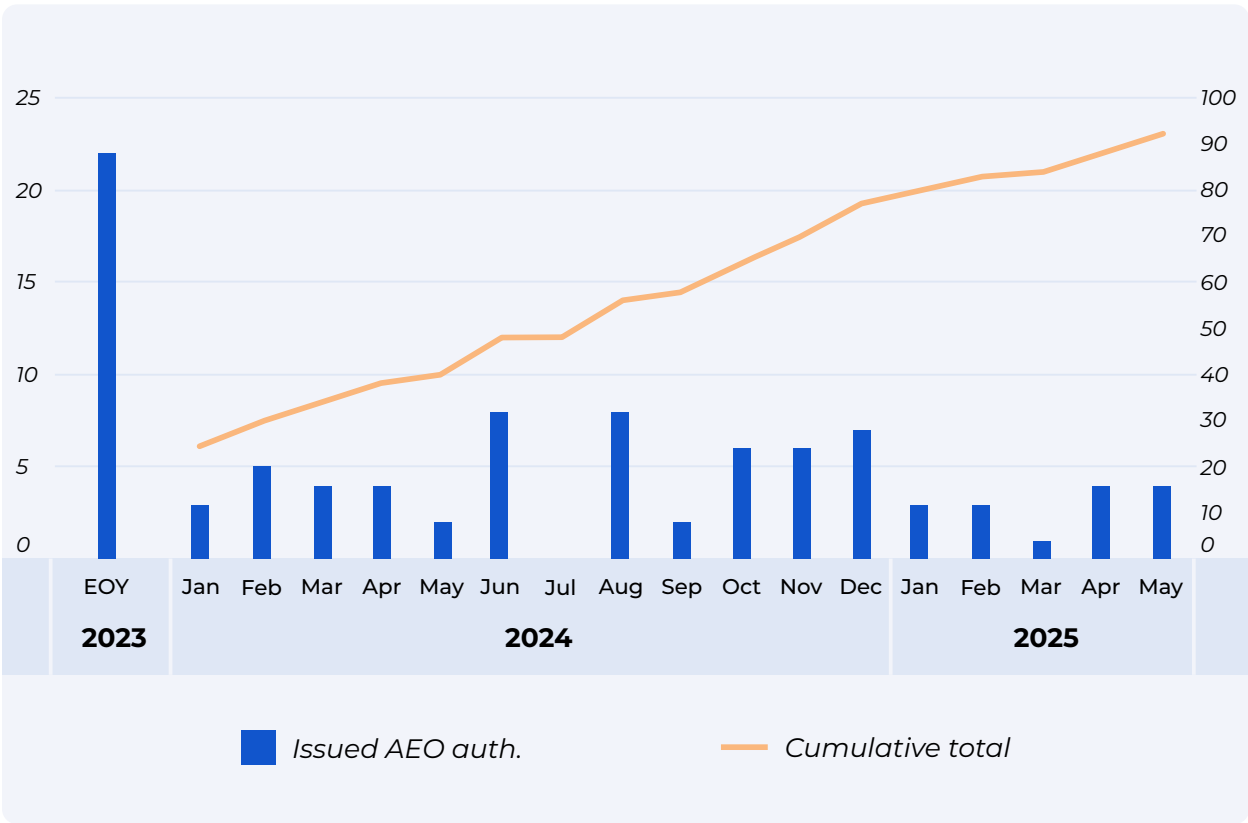
- Preserving a functional IT vertical within the State Customs Service, supported by a highly professional core team with market-competitive remuneration;
- Launching a dedicated and sequestration-proof digitalisation fund or budget programme;
- Transitioning to project-based management models with agile internal teams;
- Engaging private-sector experts through flexible contracts backed by government guarantees to ensure continuity of digital initiatives despite potential political turnover;
- Ensuring that all newly developed and existing IT systems are supported by up-to-date technical documentation, clearly defined fallback procedures, and service-level agreements (SLAs). This is essential to safeguard business continuity, improve system maintainability, and reduce the operational risks associated with personnel turnover or emergency response scenarios.

Absent these reforms, even the most well-designed digitalisation strategies will remain theoretical. Technological transformation begins with people — and it can only be sustained on a stable foundation of resources.

## 2.2. Expansion of Common Transit, AEO, and Implementation of NCTS

### 2.2.1. Assessment of the AEO status of implementation in Ukraine and comparison with the pace of AEO adoption in EU countries

As of June 2025, the number of businesses granted Authorised Economic Operator (AEO) status in Ukraine reached 92. However, only a small proportion of these — just three as per the AEO Registry — hold an AEO-B certificate, which is a key prerequisite for initiating mutual recognition negotiations with the European Union. To formally launch such negotiations, Ukraine must demonstrate a sufficiently representative number of AEO-S authorisations to allow for a meaningful evaluation of the system's maturity, consistency, and reliability in practice.



Graph 2.2.1. Dynamics of AEO authorisations issued (end of 2023 – May 2025)

The growth rate in the number of AEOs has remained steady in recent months, averaging four to six new authorisations per month. According to comparative



benchmarks<sup>4</sup>, this pace aligns with trends observed in relatively small EU Member States, such as Denmark, Ireland, or Slovenia. By contrast, countries comparable to or even smaller than Ukraine in territory, population<sup>5</sup> or even enterprise numbers (such as Poland, Hungary, the Netherlands, Italy, France, or Spain) have demonstrated significantly more rapid development of their AEO programmes. This discrepancy warrants a cautious but critical assessment of the pace at which Ukraine is implementing this instrument.

### **2.2.2. Analysis of Ukraine's transition from NCTS Phase 4 to Phase 5, including analytical and statistical trends in NCTS application and preparations for implementing NCTS Phase 6**

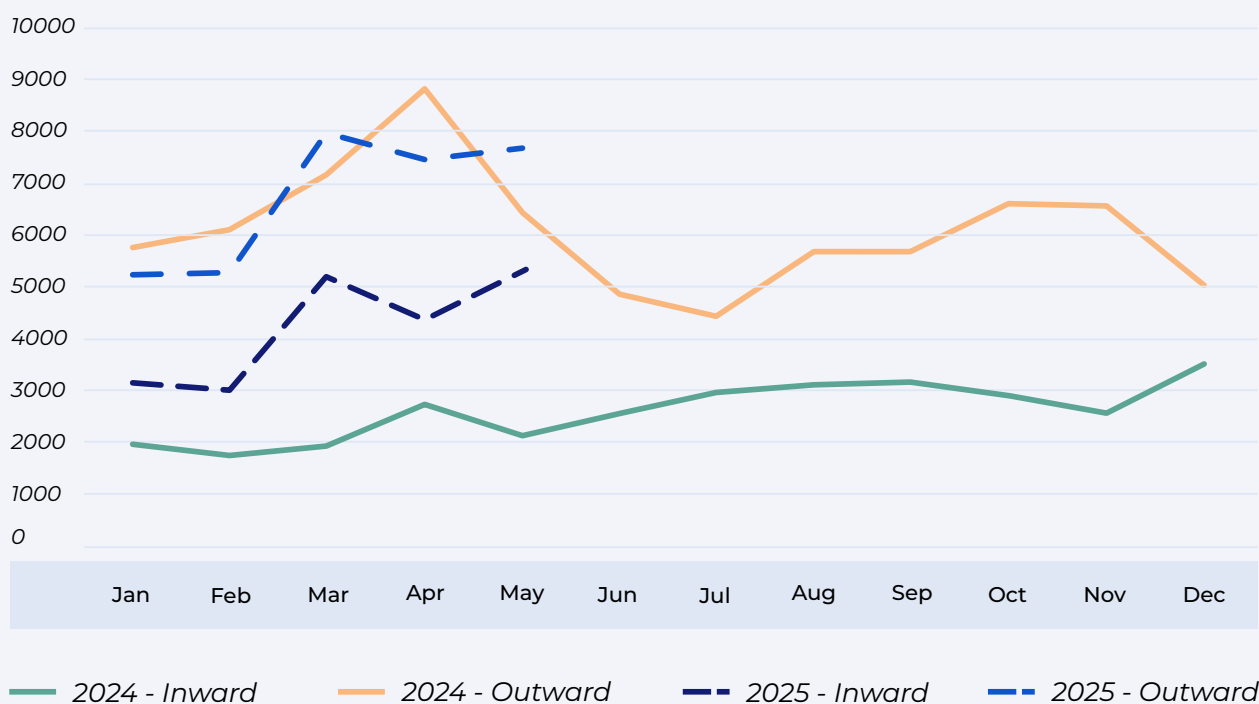
Ukraine completed its transition to NCTS Phase 5 in the second quarter of 2024, marking a significant milestone in its integration into the EU customs ecosystem. Notably, this transition occurred ahead of schedule compared to several EU Member States, reflecting the technical readiness and organisational capacity of the State Customs Service.

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<sup>4</sup> State Customs Service of Ukraine. Ukrainian businesses are demonstrating rates of participation in the AEO programme that are comparable to most European countries.

[https://customs.gov.ua/en/news/aeo\\_-59/post/ukrayinskii-biznes-demonstruie-tempi-zaluchennia-do-programi-aeo-shcho-vidpovidaiut-bilshosti-krayin-ievropi-1509](https://customs.gov.ua/en/news/aeo_-59/post/ukrayinskii-biznes-demonstruie-tempi-zaluchennia-do-programi-aeo-shcho-vidpovidaiut-bilshosti-krayin-ievropi-1509)

<sup>5</sup> Territory and population were chosen as indicators of economic potential, since comparing Ukraine's real economy with the economies of countries that have been EU members for decades would be irrelevant.



**Graph 2.2.2. Comparison of transit operations dynamics in 2024 and 2025**

Over the course of 2024 and into the first months of 2025, the use of the NCTS in Ukraine has shown a clear upward trend in inward transit movements. Inward declarations increased steadily throughout 2024, rising from just under 2,000 in January to nearly 3,500 in December. This growth continued into 2025, in the first four months alone inward declarations reached over 15,700, already surpassing half the annual volume for 2024. That said, this growth must be interpreted in context. One of the key constraints might lie beyond the control of the Ukrainian authorities: foreign traders and logistics operators are often reluctant to extend financial guarantees to cover transit movements into Ukraine, limiting the scaling potential of the common transit procedure.

However, the outward use of NCTS — representing Ukrainian exporters — has grown at a more moderate pace. While volumes remained high, typically ranging between 5,000 and 8,000 declarations per month, the trajectory has been relatively flat. In this context, it is important to consider that export volumes in the first four months of 2025 were lower compared to the same period in 2024, which may partially account for the lack of visible growth in outward NCTS declarations. Nonetheless, the restrained growth in outward use falls within Ukraine’s institutional control. Given that the legal and technical frameworks are already in place, it would be prudent for the SCS and other relevant bodies to continue monitoring usage patterns and engage in targeted analysis to determine whether any specific bottlenecks — be they procedural, informational, or operational — are limiting broader adoption among Ukrainian exporters.

### **2.2.3. Analysis of the impact of abandoning national simplifications in favour of the common transit procedure in Ukraine.**

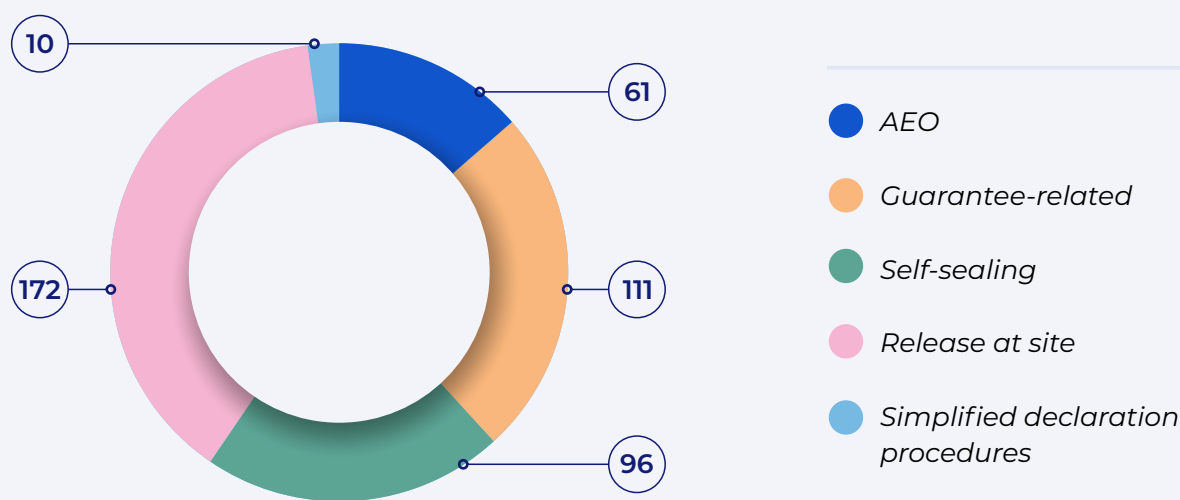
It is important to first clarify the nature of procedures commonly referred to in public discourse as “national simplifications” — particularly:

- the use of EA-type import declarations, which allowed the release of goods into circulation without their physical presentation to customs authorities;
- and the possibility of export without first presenting goods to customs officers at private terminals.

Although this terminology has gained popularity, it does not accurately reflect the legal status of these practices. These mechanisms were never part of the codified list of simplifications under the Customs Code. Their application was entirely discretionary, based on risk-oriented approaches by customs authorities, and conferred no enforceable rights to businesses. They could not be contested, were not subject to formal authorisation requests, and could not be predictably or consistently applied — unlike formally recognised simplifications.

This distinction is critical for interpreting the dynamics of reform. It helps explain why the expectation — held by both legislators and the Ministry of Finance — that businesses would transition en masse to formal simplification tools such as AEO following the removal of these practices and tighter regulation, has not materialised.

In the short term, the removal of such practices did result in a brief surge in applications for AEO status. However, by early 2024, this trend levelled off. Instead, more sustained growth has been observed in applications for individual simplifications — primarily authorisation for release at the place of location and the use of self-sealing. This pattern indicates that businesses are seeking mechanisms to partially recapture former advantages without undergoing the full AEO certification process.



**Chart 2.2.1. Comparison of issued authorizations issued in 2024**

Authorisation statistics continue to reinforce the conclusion that AEO remains a low-attractiveness instrument. The previous Shadow Report emphasised the importance of offering new, practical benefits for authorised operators — such as priority in the electronic border queue or mechanisms for reserving key personnel. As of early 2025, priority access in the electronic queue has indeed been implemented under a pilot project (nearly five years after it was included in the Customs Code), but it has yet to stimulate a noticeable increase in AEO applications.

Another plausible explanation for the relatively low uptake of AEO-S status, compared to individual simplification authorisations, lies in the stricter financial solvency requirements applied to AEO applicants — requirements that are not systematically assessed for most simplifications outside the context of guarantee reduction or waiver. Given the frequent revisions to the financial solvency assessment criteria from the launch of the AEO programme, it appears that this requirement has been one of the main constraints limiting broader AEO uptake among Ukrainian businesses. These criteria may further discourage otherwise compliant companies from pursuing AEO status.

As with digitalisation, the underlying issue appears to be deeper: the Ministry of Finance often approaches EU-aligned reforms in an overly formalistic and literal manner. Rather than viewing approximation to the EU acquis as an opportunity to modernise and reimagine customs policy, the Ministry has largely limited itself to a

superficial transposition of rules — frequently without meaningful integration into Ukraine’s legal framework or business environment.

At first glance, this may seem inconsistent with earlier recommendations to mirror the UCC in full. In reality, the logic is complementary. Full mirroring was suggested not because it is ideal — but because it is inevitable: once Ukraine becomes a Member State, the UCC will apply directly and in full, leaving no room for selective implementation. Mirroring it early is therefore a pragmatic way to smooth the transition and avoid disruptive institutional shock. However, this must be balanced with geopolitical realism. There is no binding guarantee that Ukraine will join the EU by 2030. As the experience of North Macedonia demonstrates, accession negotiations can be delayed for years — even decades — due to political objections entirely unrelated to technical preparedness. Signals of potential vetoes or obstruction already exist in relation to Ukraine. In this context, a purely literal implementation of EU customs law — without regard for domestic business needs or incentive structures — risks locking Ukraine into a high-cost, low-benefit model with no guaranteed membership horizon.

It is also worth noting that while the UCC establishes a harmonised framework for customs procedures, it leaves a lot of implementation details to Member States and does not explicitly prohibit the introduction of additional incentives or facilitation mechanisms, particularly when such measures fall outside the strict scope of EU customs legislation and remain governed by national law. Within this space, Ukraine retains the possibility to think more creatively and go beyond minimum alignment, provided such measures do not conflict with overarching *acquis* obligations.

As a result, the AEO framework, instead of evolving into an effective tool to support trusted traders and deliver operational benefits, has been implemented as a cumbersome system — featuring extensive questionnaires, complex criteria, and procedures directly copied from practices in highly developed EU economies, often without sufficient adaptation to Ukrainian realities.

This approach reflects a lack of strategic vision: rather than tailoring these instruments to meet the needs of domestic businesses, implementation has been driven primarily by the imperative of formal compliance with EU requirements, rather than creating functional and beneficial tools embedded in the national context. This not only undermines the effectiveness of these instruments but also risks eroding trust in the EU integration process itself — especially among small and medium-sized enterprises, for whom bureaucratic burdens are a critical barrier.

This same pattern is reflected in the implementation of Law No. [3926](#), which requires certain enterprises — including those engaged in inward processing, customs

brokerage, or warehouse operations — to undergo procedures that are essentially equivalent to AEO certification. While this will likely increase the number of formal authorisations, such growth will be driven not by rising trust or transparency, but by the need to comply with new mandatory conditions to continue existing operations.

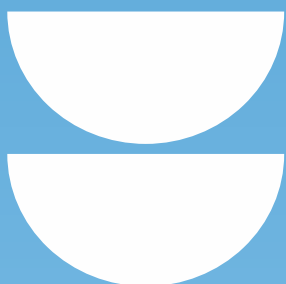
Some enterprises may apply for full AEO status in response, but this dynamic risks distorting the statistical picture of AEO development in Ukraine. Rising numbers may not reflect genuine demand or business motivation. When combined with the rigid implementation style described above, this further raises questions as to whether these reforms are viewed by the Ministry of Finance as tools for transformation or merely a checklist for external compliance.

The potential signing of a mutual recognition agreement on AEO status between Ukraine and the EU also warrants careful consideration. Under current conditions — where the overall number of Ukrainian AEOs remains low and growth trends are stagnant — such an agreement, if concluded in the near term, would disproportionately benefit the European Union.

Most natural candidates for AEO status in Ukraine are subsidiaries of large multinational corporations that already hold AEO certificates in EU countries. Following the signing of a mutual recognition agreement — and especially upon Ukraine's accession to the EU — these companies could reasonably forgo undergoing the Ukrainian AEO procedure altogether. This would risk stalling the organic development of Ukraine's AEO programme.

There are also potential negative implications for Ukrainian businesses. Under the current policy direction of the Ministry of Finance — which tends to offer strict regulatory obligations instead of tangible incentives — enterprises may conclude that it is more advantageous to complete customs formalities in EU Member States. These jurisdictions offer more predictable conditions, shorter processing times, and clearer cost structures. Left unaddressed, this could result in a competitive disadvantage for Ukrainian customs and discourage domestic compliance engagement.





### III. PRACTICAL IMPLEMENTATION: THE STATE CUSTOMS SERVICE AS A MODERN, EFFICIENT, TRANSPARENT, AND CORRUPTION-FREE INSTITUTION



### 3.1. The State Customs Service as an Efficient Manager of Budgetary Funds

The SCS is the central executive authority responsible for implementing national customs policy. Its activities are coordinated by the Cabinet of Ministers of Ukraine through the Ministry of Finance. However, this institutional model is relatively recent. Prior to 2018, the customs authority underwent multiple structural and subordination changes within the system of executive bodies. At one point, it was merged with the tax administration under the Ministry of Revenues and Duties. Currently, the SCS operates as a separate legal entity and an independent budget holder. Its organisational structure consists of three tiers: the central administration, regional customs offices, and customs posts.

In total, Ukraine's customs system comprises 26 regional customs offices, each with its own network of customs posts. It also includes the Department of Specialised Training and Canine Services, as well as the Specialised Laboratory for Customs Expertise and Research under the SCS<sup>6</sup>.

All SCS bodies and subdivisions are funded centrally from the State Budget of Ukraine through the budget programmes assigned to the SCS.

**Table 3.1.1. The budget of the SCS in 2023–2025**

	2023	2024	2025
Number of budget programmes	2	3	2
SCS budget (UAH billion)	5.6	6.7	8.6
SCS budget (EUR million)*	143.3	160.9	197

*\*according to the official exchange rate of the National Bank of Ukraine as of January of the respective year*

<sup>6</sup> M. M. Razumei, D. O. Kukhtin. The structure of the customs system of Ukraine in the context of the European customs risk management practice.  
[customs-admin.umsf.in.ua/archive/2024/1/9.pdf](https://customs-admin.umsf.in.ua/archive/2024/1/9.pdf)



In 2024, alongside its core budget programs for general administration and the development of border road infrastructure, the State Customs Service of Ukraine (SCS) also implemented a targeted initiative focused on the development of railway border crossing infrastructure. Given the modest total program budget of UAH 233,000, it is presumed that the allocation was intended solely for the design documentation and preparatory work<sup>7</sup>. In 2025, a comparable program is absent from the budget.

The budget table presented earlier shows a year-on-year increase in the total budget of the SCS, despite a reduction in the number of programs in 2025. However, a closer examination of the content and financial needs of the institution remains necessary.

In addition to the general programs, the SCS also operates a specific budgetary program aimed at improving customs infrastructure to support cross-border cooperation with neighbouring EU countries. This program is financed entirely through the special fund of the State Budget, as it falls under an investment project agreed upon between Poland and Ukraine. Under this bilateral agreement, Ukraine receives a loan of up to €100 million from the Government of the Republic of Poland to develop border road infrastructure and modernise crossing points along the Ukrainian-Polish border<sup>8</sup>.

The program includes the reconstruction and equipping of four border crossing points: “Krakivets”, “Rava-Ruska”, “Shehyni”, and “Yahodyn”. Although the loan agreement was ratified back in 2016, as of early 2025, the project’s implementation rate stands at just 0.8%. Accordingly, the disbursement level under this program remains low: only 0.21% of allocated funds were utilised in 2023, and 36.5% in 2024. The performance indicators tied to this program remain similarly underachieved. As of the end of 2024, only preparatory works and project documentation had been completed; reconstruction itself had not commenced.

Within the SCS budget structure, the largest share is allocated to the program “General Management and Administration in the Area of Customs Policy” (Budget Program Code 3506010), which in 2025 accounts for over 88% of the SCS’s total budget. Expenditures under this program primarily cover administrative needs, including the functioning of the central office, regional customs offices, and customs posts. More than 99% of the funds for this program are sourced from the general fund of the State Budget, with the special fund contributing, on average, only 0.2%.

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<sup>7</sup> Passport of budget programme 3506100 for 2024.

<sup>8</sup> Verkhovna Rada of Ukraine. Agreement between the Government of Ukraine and the Government of the Republic of Poland on the provision of a loan on tied aid terms.  
[https://zakon.rada.gov.ua/laws/show/616\\_196#Text](https://zakon.rada.gov.ua/laws/show/616_196#Text)

Between 2023 and 2025, expenditures under this program have grown in parallel with the overall increase in the SCS budget. Notably, funding increased by 59.8% in 2024 compared to the previous year, and by an additional 21.4% in 2025. The sharp increase in 2024 may be attributed to the expansion of SCS operational activities. For instance, unlike in 2023 and 2025, the 2024 budget included allocations for fixed scanning systems for inspecting luggage and postal items, a blade-server architecture IT platform, a cryptographic information security platform, and specialised forensic equipment. Thus, the program in 2024 financed not only routine administrative expenses but also critical equipment upgrades for customs operations.

In terms of performance indicators that reflect the administrative efficiency of customs operations, progress is also visible between 2023 and 2025. Despite an unexpected reduction in personnel in 2023, efficiency metrics improved. For example, one key performance indicator — the volume of revenue to the State Budget controlled by the SCS — is expected to increase by nearly 60% in 2025 compared to 2023.

**Table 3.1.2. Planned performance indicators for the implementation of the budget programme of management and administration in the field of customs policy 2023–2025**

Indicator	Number in 2025	Increase compared to 2023 (%)
The amount of revenues to the State Budget controlled by the SCS	UAH 768,2 billion	57,7
<i>per employee</i>	<i>UAH 151,6 million</i>	<i>303,4</i>
Number of customs declarations processed	4,3 million units	12,9
<i>per employee</i>	<i>849 units</i>	<i>33,9</i>
Number of vehicles cleared through the customs border	9,2 million units	17,1
<i>per employee</i>	<i>1816 units</i>	<i>38,7</i>

The overall workload on SCS personnel is projected to increase, driven by expected growth in the number of processed customs declarations and vehicles crossing the border. However, staffing levels — including at customs posts — remain unchanged. While the planned headcount for 2023 was 11 278 employees, only 9 818 were actively employed by the end of 2024.

This discrepancy is partly attributed to suspended employment relationships with some personnel. Additionally, 8,3% of positions remain vacant, which complicates analysis of workforce metrics as reported in the budget program passport.

Performance quality indicators for customs operations are also projected to improve. In particular, the average time required for customs clearance of goods is expected to continue decreasing. For goods not flagged by the Automated Risk Management System (ARMS), the following average clearance times are anticipated:

<b>Imports:</b> 77 minutes	<b>Exports:</b> 39 minutes	<b>Transit:</b> 22 minutes
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However, discrepancies between planned and actual clearance times may remain substantial. A comparison of planned vs. actual figures for 2023–2024 illustrates this issue:

**Table 3.1.3. Planned and actual time of certain customs procedures (2023–2024, min)**

Customs procedure	2023		2024	
	Plan (min)	Actual (min)	Plan (min)	Actual (min)
Import	85	93	81	93
Export	43	52	41	66
Transit	27	43	24	41

*\*provided according to the State Customs Service: quality indicators under budget programme 3506010*

A separate note is warranted regarding the measurement of average customs clearance times, as the available data present a confusing and sometimes contradictory picture. The indicator commonly cited in official reporting, i.e. average clearance

time for declarations not subject to risk-based controls, does not appear representative of the customs system as a whole. For example, in import procedures, risk-based controls are triggered in over one-third of cases, and it is reasonable to expect that clearance times for such declarations differ significantly from those without risk interventions.

This hypothesis is supported by the discrepancies observed across various data sources. According to the Customs Digest, when customs declarations rejected or subject to risk are included, the average clearance time increases by a factor of 1.5 compared to the streamlined figure reported in official programme indicators. Furthermore, survey-based assessments from the business community estimate the average clearance time to be as high as 6.5 hours, with a median around 3.5 hours. While methodologically distinct, these business perceptions reflect real-world experience and should not be dismissed.

These discrepancies highlight that if average clearance time is to be used as a measure of customs efficiency or performance, it must be based on a transparent and robust methodology that reflects the full range of clearance scenarios, including those involving risk triggers. So far, the SCS has not provided the project team with sufficient disaggregated data or methodological explanations to validate its figures.

According to the actual performance indicators reported under the budget programme, the average time spent on customs clearance exceeded the planned targets by **9% to 62% (see detailed breakdown in the table above)**. In the justification provided for this deviation in 2023, reference is made to Article 255(1) of the Customs Code of Ukraine, which sets the maximum allowable time for customs clearance at four hours.

However, given the general downward trend in clearance time and the operational delays that continue to affect businesses, it would be reasonable to reconsider the wording of this provision. Notably, in 2024, the average clearance time remained elevated — in some cases (e.g., for exports), even exceeding that of the previous year.

While martial law conditions — such as rerouted logistics, air raid alerts, and power outages — played a role, the SCS also emphasised that significant procedural changes<sup>9</sup> introduced at the end of 2023 had an additional impact. These changes included:

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<sup>9</sup> Law of Ukraine No. 3229-IX dated 13 July 2023 'On Amendments to the Customs Code of Ukraine Regarding the Use of Customs Declarations and the Electronic Transit System Provided for by the Convention on a Common Transit Procedure for the Purpose of Transit under the Terms of this Code' and on 7 November 2023, amendments to the Customs Code of Ukraine, introduced by Law of Ukraine No. 141-IX dated 2 October 2019, came into force.

- **For exports and transit:** mandatory sealing of goods;
- **For imports:** mandatory presentation of goods to customs authorities<sup>10</sup>.

The requirement to physically transport goods to the customs authority in all three cases contributed to extended processing times.

On average, between 2023 and 2025, the General Management and Administration budget programme included 36 performance indicators. Most indicators were either underachieved or overachieved by the end of each year — a trend that persisted across both years under review.

Given the broad scope of performance indicators currently in place, it is important to note that not all of them effectively reflect the efficiency of budget execution. It would therefore be appropriate to streamline the list of indicators, focusing on those most relevant to the core functions of the customs service, while also ensuring more precise planning.

The expenditure structure of the State Customs Service generally consists of costs associated with the central administration and its subordinate regional offices, which act as lower-level budget holders. Each regional customs office maintains its own reporting, conducts independent procurement, and manages inflows to the special fund of the state budget.

The size of the budget allocated to each regional customs office varies and depends on multiple factors. The next section examines the volume of funds allocated from the general fund of the state budget in 2024 under the General Management and Administration programme.

**Table 3.1.4. Approved expenditures under the General Management and Administration programme in 2024**

Unit	Approved for the general fund 3506010 (UAH million)	Share of the budget under the general fund 3506010 (%)
Ivano-Frankivsk Customs	79,69	1,27
Vinnytsia Customs	191,23	3,05
Volyn Customs	394,77	6,29
Dnipro Customs	180,13	2,87

<sup>10</sup> Except for enterprises that have been authorised to apply the relevant simplifications, which is not a standard procedure in the EU.

Donetsk Customs	13,89	0,22
Zhytomyr Customs	126,21	2,01
Zakarpattia Customs	573,24	9,13
Zaporizhzhia Customs	112,45	1,79
Kyiv Customs	605,40	9,64
Kropyvnytskyi Customs	59,37	0,95
Luhansk Customs	13,00	0,21
Lviv Customs	688,02	10,96
Mykolaiv Customs	69,35	1,10
Customs in the Kherson region, the Autonomous Republic of Crimea and the city of Sevastopol	32,00	0,51
Odesa Customs	670,97	10,68
Poltava Customs	91,25	1,45
Rivne Customs	113,33	1,80
Sumy Customs	150,32	2,39
Ternopil Customs	72,02	1,15
Kharkiv Customs	190,07	3,03
Khmelnitskyi Customs	75,05	1,20
Cherkasy Customs	65,30	1,04
Chernivtsi Customs	361,61	5,76
Chernihiv Customs	128,28	2,04
Energy customs	137,79	2,19
Coordination and monitoring customs	113,16	1,80
Specialised laboratory for examination and research of the State Customs Service*	—	—
Department of Specialised Training and Dog Training of the State Customs Service	36,47	0,58
Central office	751,33	11,96

\* no data available

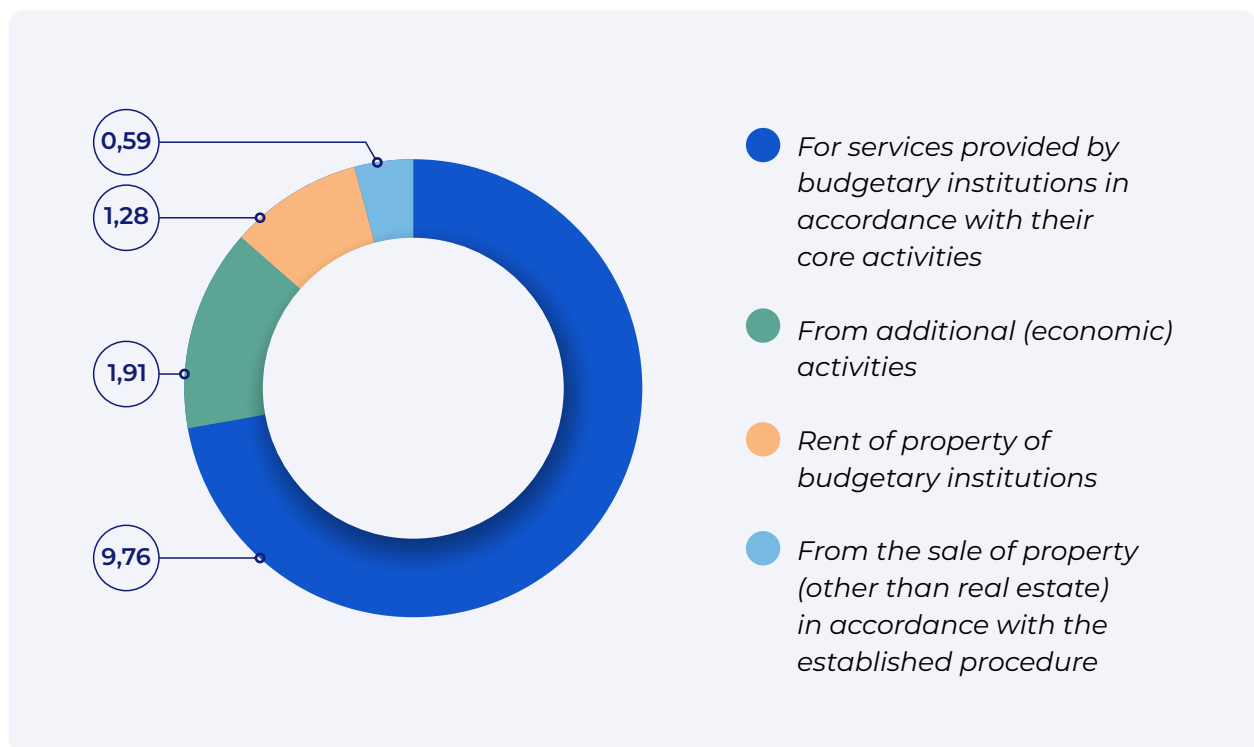
The largest budget allocation — UAH 751 million — was approved for the central administration. Overall, 50% of the General Management and Administration programme's funding is concentrated in the central office and four regional customs offices: Lviv, Odesa, Kyiv, and Zakarpattia.

In terms of special fund contributions and utilisation, the leading performers are three customs offices:

- Lviv Customs: UAH 6.7 million<sup>11</sup>
- Zakarpattia Customs: UAH 2.4 million
- Chernivtsi Customs: UAH 1.1 million

For the remaining customs offices, the average revenue to the special fund was approximately UAH 144,000<sup>12</sup>.

The main source of inflows to the special funds during the reporting year came from services provided in accordance with core customs activities.



**Chart 3.1.1. Formation of the customs special fund in 2024 (UAH million)**

The expenditure structure of customs offices generally mirrors that of most Ukrainian budgetary institutions, where the overwhelming majority of spending falls under current expenditures — primarily salaries, utilities, and other operational costs. For the SCS central administration, the ratio of current to capital expenditures stands at

<sup>11</sup> The Lviv Customs Office also has 3.4 million hryvnias approved in its special fund from a subvention from the local budget to the state budget for the implementation of programmes for the socio-economic and cultural development of the regions. This is the only customs office where such a component of the special fund has been recorded in 2024.

<sup>12</sup> Excluding data on the Central office of the SCS.

approximately 82% to 17%. In contrast, capital expenditures in regional units are often entirely absent under this programme. Capital expenditures are also financed through the special fund of the state budget, which, in the case of the central office, is supplemented through a variety of sources: revenue from services rendered, auxiliary economic activity, property rentals, charitable contributions, and grants.

Although Ukrainian legislation treats self-generated revenues of budgetary institutions as part of their official budgets — with clearly designated spending purposes — such funds can play an important role in improving institutional financial resilience. While most public institutions in Ukraine do not actively prioritise increasing their special fund revenue, more strategic efforts in this area could substantially enhance the SCS's operational sustainability.

The State Customs Service remains one of the key government bodies responsible for both revenue generation and protecting Ukraine's borders. Between 2023 and 2025, the SCS budget has grown steadily, though administrative expenditures still dominate overall spending.

**Of the three budgetary programmes implemented by the SCS over this period:**

- one supports general management and administration;
- the remaining two aim to enhance customs infrastructure and equipment;
- one of these is entirely funded through a loan agreement with the Republic of Poland.

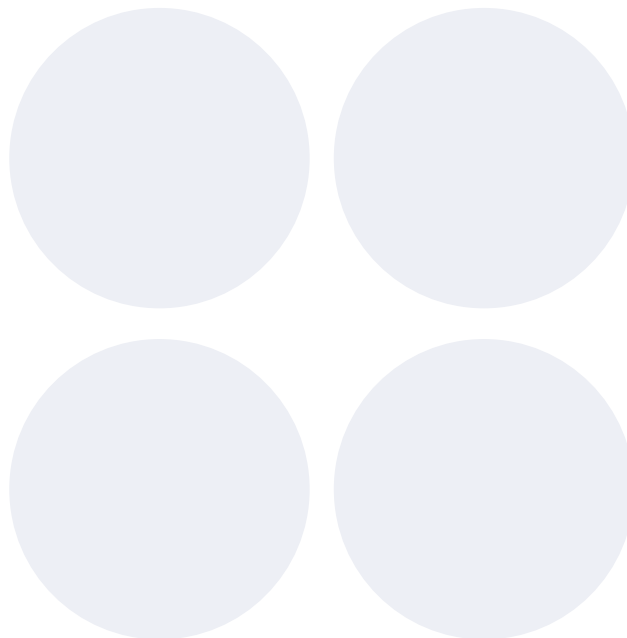
According to official implementation reports, the Polish-financed infrastructure programme has progressed more slowly than anticipated, with various bureaucratic hurdles delaying execution.

From the performance indicators under the general administration programme, there is a clear increase in workload and expectations placed on customs personnel, while staffing levels remain effectively unchanged. Additionally, many of the programme's indicators do not consistently reflect the actual efficiency of budget use. For example, while certain indicators track the number of administrative offence decisions or related court cases, none directly measure customs' efforts in combating smuggling — despite this being a central and resource-intensive activity.

The level of resourcing among SCS's regional divisions varies significantly. Half of the general administration programme's entire budget is allocated to the central office and four regional customs offices. Both the allocation of funds and performance results across regional units warrant further in-depth analysis, which cannot currently be conducted using only open-source information.



At the same time, the pattern of special fund contributions and usage suggests targeted work toward financial sustainability is most evident within the central office and three leading regional customs offices. This indicates that these units are likely shouldering the highest operational loads and have comparatively stronger human resource capacity.



### 3.2. Human Resource Policy of the State Customs Service

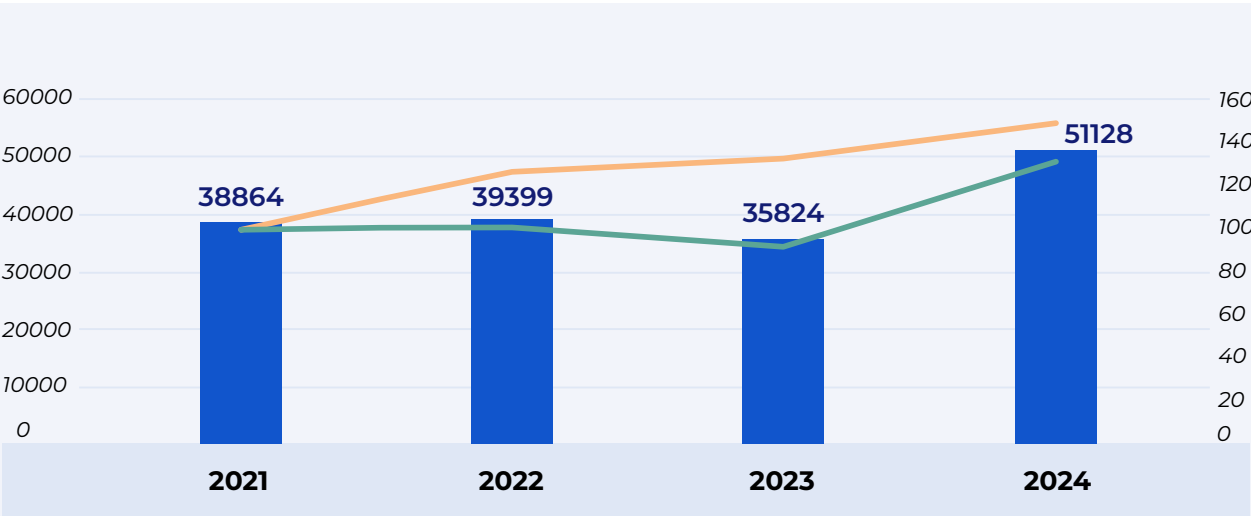
Ukraine's accession to the European Union will entail full integration into the EU's single customs area. To ensure effective integration, most of the SCS personnel must meet at least the following requirements:

- proficiency in European customs procedures;
- foreign language skills, particularly English;
- integrity and independence in line with anti-corruption standards;
- digital literacy and the ability to work with data exchange systems such as NAP, ICS2, and e-Customs.

The average staffing level of the SCS in recent years has not reached a critical low but has shown volatility:

2022 — 84.07%	2023 — 89.66%	2024 — 87.11%
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The decline in 2024 may be attributed to financial constraints, staff turnover, and burnout. Maintaining staffing levels above 90% should be a strategic goal of HRM policy. Unfortunately, the lack of analytical data on the causes of staff attrition limits the understanding of the 2024 decline to hypothetical explanations.



**Graph 3.2.1. Average salary compared to inflation**

Salary

Inflation

Salary growth rate

Although the State Customs Service regularly analyses staff turnover rates and staffing levels at customs offices, as well as the quantitative and qualitative composition of personnel, and conducts pulse surveys on employee engagement, there is no systematic analysis of the reasons for staff resignations — or, if such analysis exists, it was not provided in response to a relevant public information request. In particular, pulse surveys do not cover those who have already left; exit interviews are not conducted, which means the survey results may be subject to “survivorship bias”. Moreover, employee engagement does not equate to turnover. A high level of engagement can coexist with high turnover if there are no financial, career, or professional incentives to remain in the system. Engagement is measured through subjective satisfaction assessments, while turnover is measured through objective HR statistics.

Despite a substantial increase in the payroll fund in 2024 — from UAH 2.95 billion in 2022–2023 to UAH 4.61 billion in 2024 (+56%) — several critical imbalances remain in the internal wage structure.

**→ Key problems include:**

- **The erosion of real wages** in 2022–2023 due to high inflation, which nullified the effects of nominal growth;
- **A lack of systematic incentives** for retaining junior and mid-level specialists, as the compensation system remains unattractive and contributes to staff turnover.

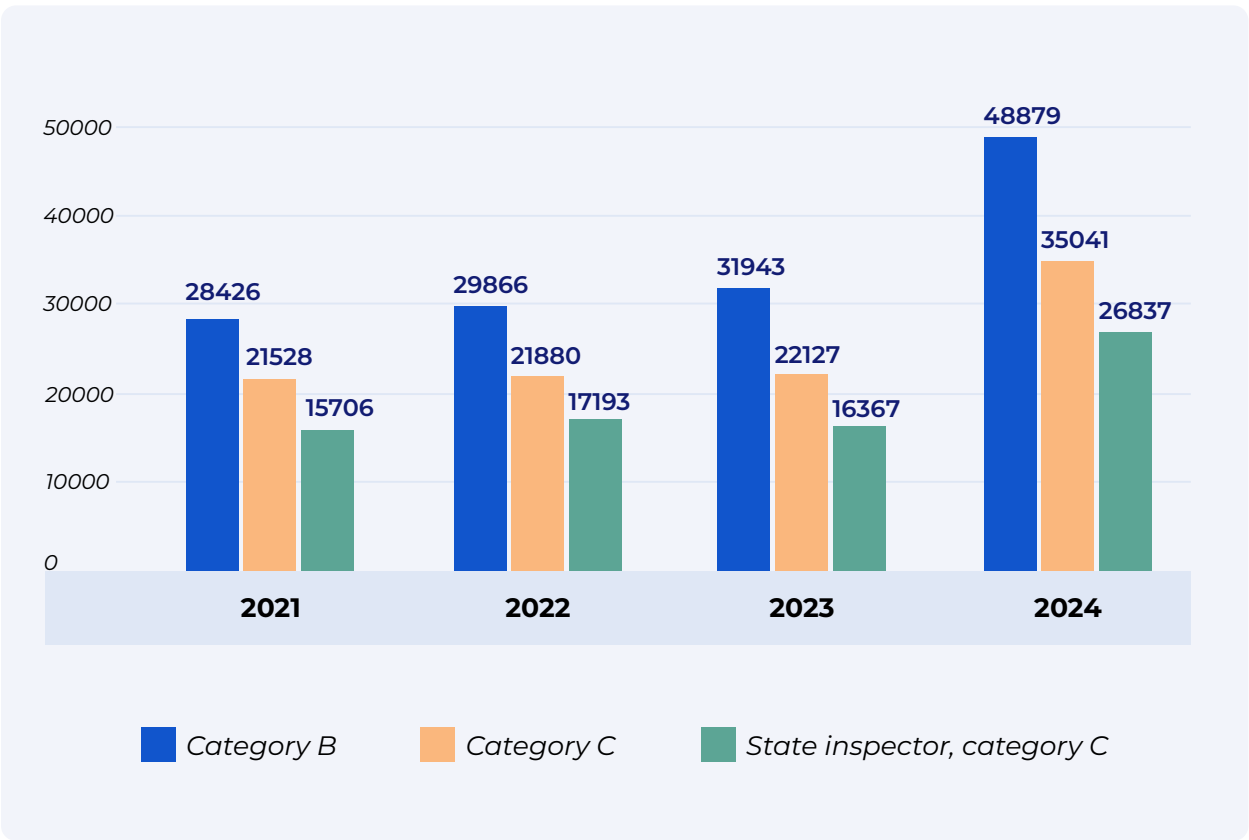


**Chart 3.2.1. Average level of accrued remuneration (UAH) gross, Central Office**

Category A      Category B      Category C

A particularly concerning issue is the remuneration of state customs inspectors — those responsible for core functions such as time-sensitive legal decisions, direct engagement with foreign trade operators, and the implementation of customs control and clearance procedures. In 2024, the average gross salary of an inspector was UAH 26,837 — disproportionately low considering the level of responsibility, required expertise, and exposure to corruption risks.

This disparity raises legitimate questions about the adequacy of the current compensation model, whereby frontline customs officers — those most professionally and ethically vulnerable — earn less than administrative or support staff in the central office.



**Chart 3.2.2. Average level of accrued remuneration (UAH) gross, regional customs**

A useful comparison can be drawn from the defence sector, where Ukraine's Armed Forces use a compensation model that offers substantial bonuses to those stationed on the frontline or directly supporting combat units. In customs, the “frontline” is represented by border checkpoints and customs posts— critical touchpoints for the state’s presence in international trade. A systematic review of compensation approaches that accounts for functional workload is not only appropriate but seems strategically necessary.

### → **Recommendations to address wage and staffing imbalances:**

- **review the compensation structure** to ensure fair remuneration based on workload and risk level;
- **introduce additional incentives** — such as flexible bonuses for work in “high-risk zones” (border posts, control departments, risk analysis units);
- **establish a classification system for positions** based on corruption and professional risk levels, with corresponding pay coefficients;
- **streamline the administrative hierarchy** and redirect resources toward strengthening the operational frontline of the customs system.

Comparative perspective (average monthly gross salary of customs inspectors, 2024):

- **Lithuania:** ~€2,200 (≈ **UAH 91,300**)
- **Latvia:** ~€950 (≈ **UAH 39,425**)
- **Ukraine:** ~€650 (**UAH 26,837**)

To conclude, **Ukrainian customs inspectors remain the least protected, both financially and institutionally**, among their counterparts in eastern EU Member States. This requires urgent attention and a strategic overhaul of human resources and incentive policy.

As of 31 December 2024, only 213 out of 9,422 SCS employees (≈2.3%) demonstrated proficiency in a European language (English, German, French) at B2 level or above<sup>13</sup>:

- Central administration: 47 of 771 (≈6%)
- Specialised Training Department: ≈19%
- Kropyvnytskyi Customs Office: ≈18%
- 14 customs offices: 0%
- 11 customs offices: 1–5%

This low level of language proficiency poses a major barrier to effective cooperation with EU counterparts and participation in international procedures. Moreover, the demographic composition of the SCS is skewed toward older employees: 51% are aged 46 and above, which may slow adaptation to change. While the share of young-

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<sup>13</sup> In accordance with international standards The Common European Framework of Reference for Languages (CEFR) and the practices of other customs administrations of EU member states.

ger employees has increased from 4% to 7%, the overall structure remains conservative and ageing.

**The general education level within the SCS is satisfactory:**

- Specialist degree: 67%
- Master's degree: 25%
- Bachelor's degree or lower: 5%

The share of bachelor-level employees is gradually increasing, suggesting some potential for future-oriented training and openness to acquiring new competencies.

However, training in EU integration-related areas remains limited. In 2022, only 11% of active staff received such training; in 2023, this increased modestly to 14%. These levels are insufficient and highlight the absence of a systematic approach to training and capacity development. The low coverage of targeted training presents a critical obstacle to deeper integration with the EU customs union.

It is also worth noting that the existing requirement for public servants (including customs officers) to hold a master's or bachelor's degree raises whether higher education should be mandatory for all job categories — especially given that individuals with advanced degrees may be less inclined to accept frontline inspector positions under current working conditions. For example, in the EU public service only administrator-level groups require university education<sup>14</sup>, while in the U.S. certain states also refrained from high school education requirements to “skills and experiences as substitutions for educational degrees and certifications”<sup>15</sup>.

A positive institutional development in 2024 was the adoption of Law No. 3977-IX (enacted on 17 September 2024), which introduced a new model for appointing SCS leadership:

- Transparent selection of the SCS head through a competitive process involving international experts;
- Appointment of regional customs heads made autonomously, without approvals from other government agencies;

<sup>14</sup> European Personnel Selection Office. What Kind Of Educational Qualifications Do I Need? [eu-careers.europa.eu/en/help/fag/7434](https://eu-careers.europa.eu/en/help/fag/7434)

<sup>15</sup> BestColleges. These States Don't Require a Degree for a Government Job. [www.bestcolleges.com/news/these-states-dont-require-degree-for-a-government-job/](https://www.bestcolleges.com/news/these-states-dont-require-degree-for-a-government-job/)

- Selection committee composed of six members (three Ukrainian officials and three international experts).

This reform reduces political influence over appointments and enhances transparency and integrity in leadership selection.

The human resources capacity of the State Customs Service is **partially** aligned with EU integration needs, but key gaps remain:

- critically low foreign language proficiency is the most immediate barrier;
- training coverage is insufficient, and performance evaluation systems (e.g., KPIs/OKRs) are lacking;
- the dominance of older personnel limits responsiveness to reform;
- while educational attainment is generally strong, it does not offset other institutional weaknesses.

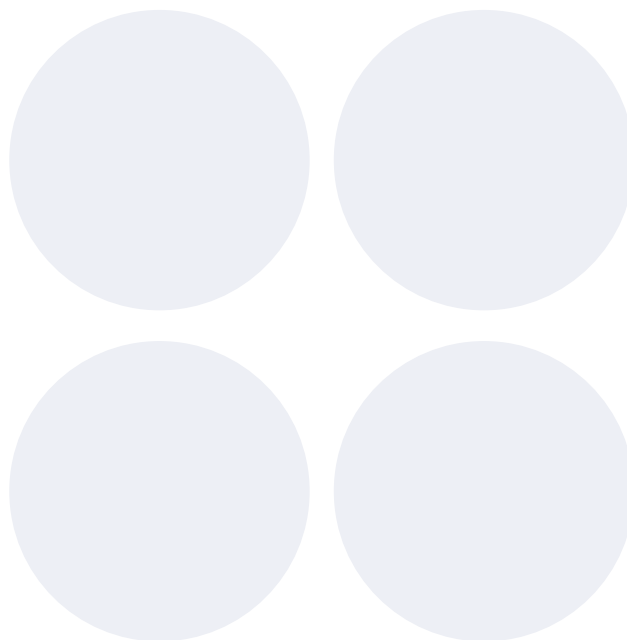
The State Customs Service of Ukraine has undeniable potential for European integration. At the same time, human resource policy remains one of the most vulnerable elements of the system. The shadow report reasonably identifies critical gaps — in pay, language and digital competencies, knowledge management, and staff motivation.

### **Key Measures for Strengthening Human Capital and Readiness for EU Integration:**

- 1 HRM Reform — Introduce a professionalised HR strategy with clear job profiles, rotational assignments, and performance evaluation systems.
- 2 Training & Digitalisation — Make training in UCC, ICS2, e-Customs mandatory; expand systematic language training (targeting B2+).
- 3 Staff Renewal — Ease rigid education requirements to facilitate entry of young professionals with diverse academic backgrounds.
- 4 Pay Reform — Implement KPIs, indexed salaries, transparent bonus rules, and risk-based compensation schemes (similar to frontline pay models).
- 5 Modernized Governance Models — Establish talent pools, enable external audits, include international experts in selection panels, and consider more flexible staffing models for internal or support functions, administrative roles

such as payroll, IT development, project management, data analysis (e.g., without formal civil service status).

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- 6** Post-Enlargement Workforce Transition Planning — Develop a dedicated strategy for managing human resources in the context of EU accession, addressing phased relocation or retraining of customs staff from border crossing points with the EU and Moldova, outline career trajectories for affected officers, and prepare for expanded mandates (e.g., full excise control, post-clearance functions, investigative powers).
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### 3.3. Communication and Coordination by the State Customs Service

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#### → **Business Engagement**

To ensure long-term cooperation and track the development of partnership relations, the State Customs Service of Ukraine (SCS) signs memoranda of cooperation, partnership, and collaboration with donor organizations, government bodies, foreign institutions, businesses, and civil society.

**As of 2024, memoranda with the following business organizations remain in effect:**

- European Business Association (since 2019);
- Federation of Employers of Ukraine (2020);
- Association of Light Industry Enterprises “Ukrlegprom” (2021);
- American Chamber of Commerce in Ukraine (2024).

#### → **Ensuring Trust Through Information Exchange**

Already in 2019, 81% of surveyed business representatives emphasized the importance of establishing an official, consistent, and reliable channel of communication with customs, through which they could receive consultations or clarifications of legislation.

**Other interaction formats deemed relevant by businesses included:**

- Establishing Central Help Desk to provide professional advice;
- Enabling electronic submission of inquiries and receipt of consultations.

Proposals were also made to develop a comprehensive, user-friendly legal guidance database — modelled after platforms such as [Access2Markets](#) (formerly Trade Helpdesk) — and to transition all business-customs communications to a paperless format.

#### → **Developing Effective Coordination Tools with Stakeholders**

The only formal [meeting](#) between SCS and business stakeholders in recent years occurred in late 2021, focused on designing a model for effective and transparent interaction. Although working groups were established for direct dialogue and issue analysis, the SCS has not communicated any follow-up or results since.

## → **Ad-hoc Coordination**

[In July 2024](#), the following were established:

- A Coordination Council for the restoration of maritime trade in the ports of Greater Odesa under the Odesa Regional Administration, with representatives from customs, tax authorities, BES, port administrations, shipping lines, terminal operators, and exporters;
- A working group to promote the implementation of electronic document workflows in Odesa Port, including stakeholders such as SCS, the Logistics and International Transportation Committee of the SCS Public Council, and major terminal operators.

## → **Regional Innovations**

The Zakarpattia Customs Office created an online resource aggregating access to commonly used customs services. It includes separate portals for businesses and individuals, integrates with national customs platforms (like the Single Window for International Trade), and features contact info, FAQs, and feedback options. The service proved popular, with [nearly 200,000 users](#) between its launch in spring 2023 and October 2024.

## → **Public Participation in Policymaking**

Public engagement is a core part of governance in Ukraine. However, it should transcend traditional monitoring and evolve toward genuine consultative roles — ensuring inclusivity, legitimacy, and effectiveness in decision-making. The Public Council of the SCS plays a central role here, participating in consultations with SCS, the Ministry of Finance, and relevant parliamentary committees. It also organizes educational and outreach events.

Despite frequent references to public participation, authorities must also demonstrate the capacity to provide feedback, not just collect input. Public Council reports note that not all recommendations are substantively considered by the Ministry of Finance. In some cases, promises are made without follow-through.

## → **Challenges in Public Council Effectiveness**

Key limitations include:

- Regulatory gaps, particularly stemming from Cabinet Resolution No. 996;
- Lack of transparency in how proposals are handled or decisions tracked;
- Extended terms of council members (beyond four years due to martial law);
- Proposed legislation by NACP further underscores the need to define the council's scope within SCS processes.

Regional coordination remains inconsistent due to the absence of permanent dialogue platforms and divergent interpretations of customs norms.

## → **Public Consultations and Accountability**

Under the Procedure for Public Consultations, government bodies must report:

- whether public comments were accepted or rejected, with justifications;
- decisions made based on consultations.

Ideally, agencies would summarize all feedback received, provide reasoned responses, and present a comprehensive Public Consultation Report.

As of now, SCS has not demonstrated meaningful implementation of this process. Its official site includes only one “Report on Monitoring Complaints Against SCS Officials and Disciplinary Proceedings in 2023”, which lists discussion points but lacks specific outcomes or follow-up actions.

In June 2024, Ukraine adopted the Law on Public Consultations, which formalizes processes for policy design and resolution of local issues. It obliges central executive authorities — including the SCS — to engage in public consultations through:

1. Online consultations via official platforms;
2. Targeted consultations via surveys or direct communication;
3. Public discussions, including roundtables, hearings, or digital forums.

The law will enter into force 12 months after martial law is lifted or repealed.

## → **SCS Plans and Reporting Practices**

The State Customs Service of Ukraine publishes annual plans in line with the government priorities and international obligations. But the SCS is currently overwhel-

med with reform plans approved by the government over the years — there are currently about a dozen of them in action. In early June 2025, the Prime Minister noted that another new Plan to reform SCS should be submitted to the Cabinet of Ministers of Ukraine by 17.06.2025. Nevertheless, for its own operational activities, the State Customs Service develops, and the Ministry of Finance approves, an annual customs work plan.

In recent years, the plan has been significantly delayed in its development and adoption. For example, the Ministry of Finance of Ukraine approved the Work Plan of the State Customs Service of Ukraine for 2025 only five months after the start of the year, which is 01.05.2025.

The situation is no better with regard to the approval of the Customs Work Plan in previous years:

- 2024 — The plan was approved on 16 May;
- 2023 — 12 June;
- 2022 — The plan has not been posted on the State Customs Service website;
- 2021 — 18 March;
- 2020 — 29 January.

This raises a question: what role does the Work Plan play in the life of the State Customs Service if its approval has recently been taking place almost half a year after the required date?

In addition, the Plan does not fully contain measures that are noteworthy in terms of international commitments and European integration process. For instance, the 2024 Enlargement Report stated that Ukraine made progress in smoothing the application of authorised simplifications, however only 2 economic operators have received AEO Security and Safety (AEOS) status. These limits progress in negotiations with the EU on mutual recognition of AEO. However, the Plan does not mention any specific measures that would promote greater business participation in the Authorised Economic Operator programme.

Regarding the reports of the fulfilment of the SCS work plans, in documents there are cases of blending notable achievements with routine activity, and often include general process descriptions without evaluative insight — making it unclear whether goals were met or challenges arose.

### 3.4. Risk Management, Post-Customs Control, and Joint Customs Control

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#### → **Customs Controls**

The exercise of customs control by the State Customs Service (SCS) is governed by Chapter XI of the Customs Code of Ukraine (CCU), titled “Customs Control”. According to this chapter, customs authorities are required to perform only the minimum necessary customs formalities needed to ensure compliance with applicable legislation.

It is important to note that post-clearance control is *not* synonymous with a documentary audit of compliance with customs legislation. However, the scope and function of post-clearance control will change with the entry into force of Law No. [3926-IX](#), starting from April 19, 2025. Under this law, post-clearance control will consist of two core components:

- Pre-audit analysis, and
- Documentary audit.

These changes are expected to align Ukrainian customs practices more closely with European standards, reinforcing both risk management and enforcement functions post-clearance.

#### → **Automated Risk Management System (ARMS)**

Customs control should be risk-based. In the EU, this is ensured by the Customs Risk Management Framework (CRMF), which defines specific priority areas for customs control. A key principle of this framework is proportionality and relevance — control measures must be appropriate to the identified risk. Risk information is contributed to and exchanged via the CRMS2 system, which enables a harmonized application of risk criteria across all 27 EU member states.

In Ukraine, the selection of customs control methods and scope is done through the Risk Management System (RMS) and its automated component, ARMS, by customs officials. The Expert Commission on RMS within the State Customs Service (SCS) is responsible for maintaining the risk register, approving risk profiles, and defining relevant risk indicators.

In August 2024, the SCS established a project working group for the development of a “Risk Profile Manager”. This initiative aims to automate the registration and

administration of risk profiles. As of December 2024, the group finalized the technical specifications for implementation, and a developer is now being sought to build the software.

Additionally, in 2024, the Risk Analysis and Targeting Department made 1,043 updates to the Customs Clearance Automation System (CCAS) using available RMS tools and data from other customs divisions.

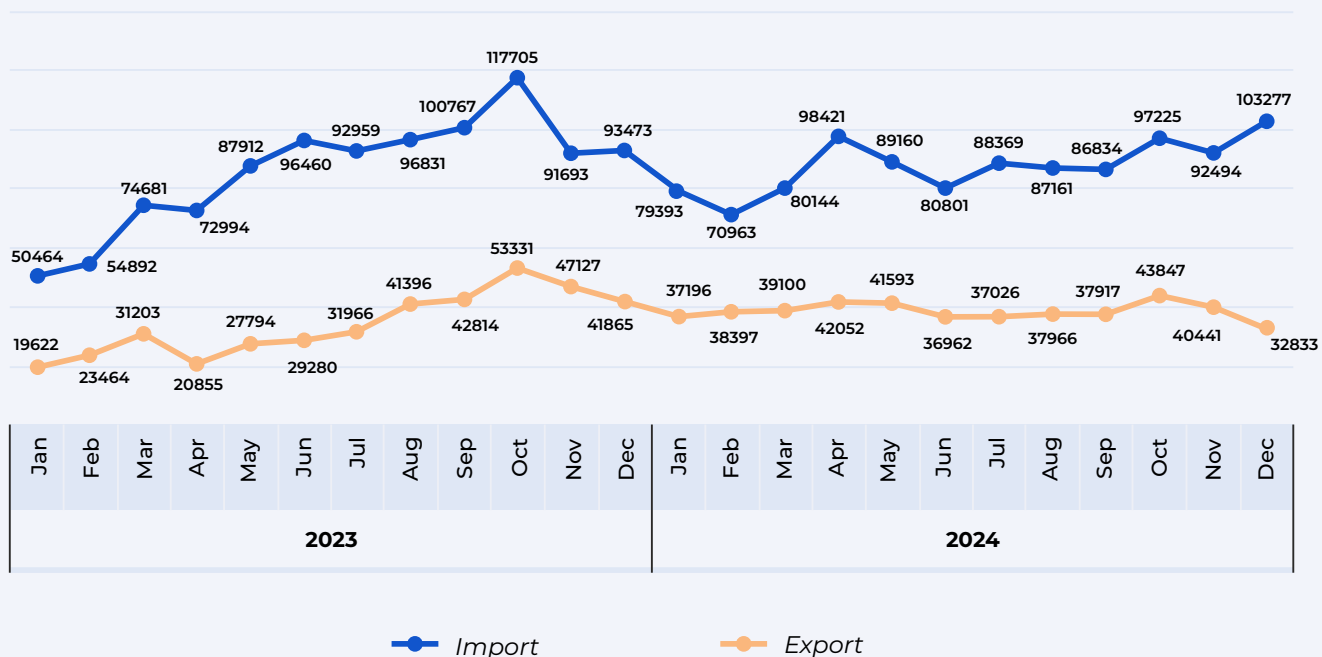
#### Key Performance Criteria for ARMS:

- 1 **selectivity** — the proportion of cases selected for control by ARMS relative to the total, indicating how broadly or narrowly the system targets shipments;
- 2 **effectiveness** — the percentage of customs declarations or movements where checks triggered by ARMS led to findings of non-compliance or violations significant enough to justify withholding customs clearance or border crossing;
- 2 **economic efficiency** — the total additional customs payments collected as a result of ARMS-based checks.

#### For the purposes of this report, it is important to note:

- selectivity is improving, but the system still flags too large a proportion of shipments, indicating a lack of refinement;
- the SCS faces difficulties tracking ARMS performance: results related to post-clearance audits, adjustments, or reclassifications may not be clearly attributable to ARMS intervention;
- economic efficiency is virtually impossible to calculate, as customs processing systems do not record the amount of additional payments linked directly to ARMS-triggered interventions.

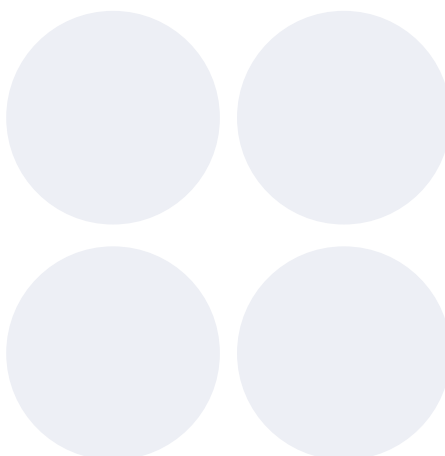
As a result, indicators of selectivity, effectiveness, and economic return are dispersed across different internal systems and cannot be integrated into a comprehensive assessment of the RMS's overall effectiveness.

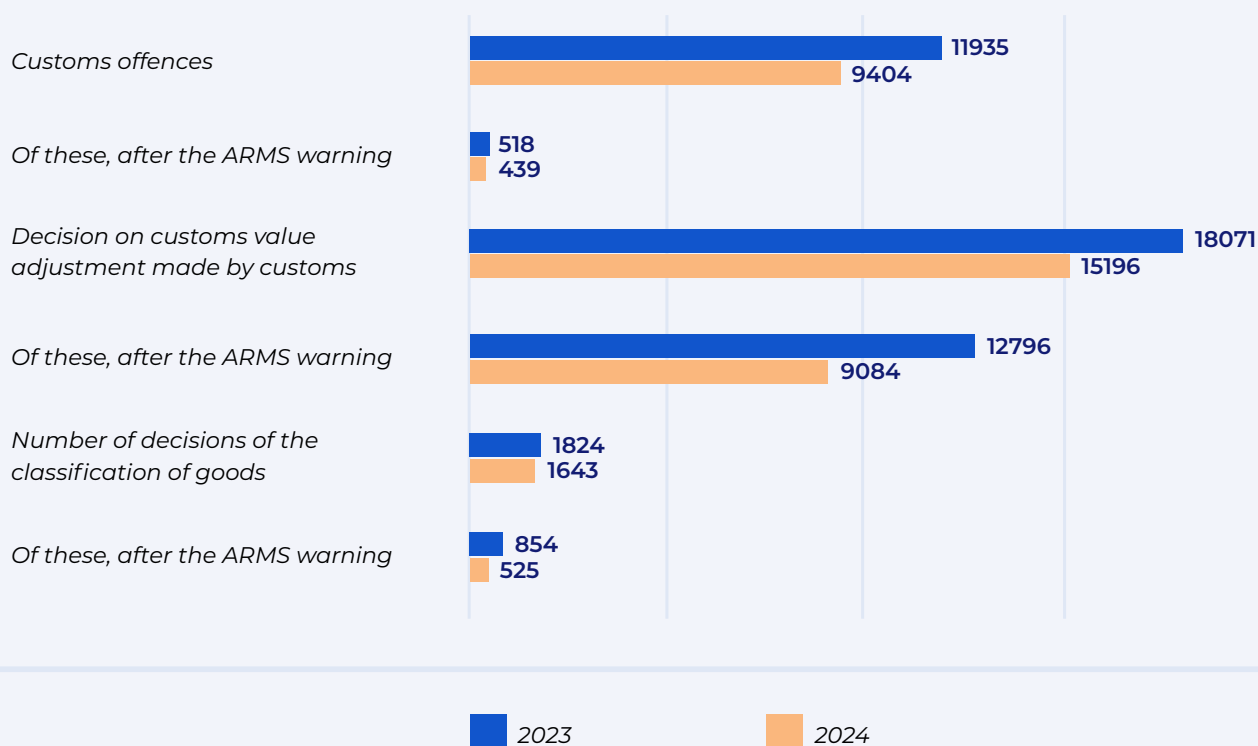


**Graph 3.4.1. Number of ARMS alerts (number of customs declarations)**

Numerous customs formalities are generated by the ARMS in relation to customs declarations. For instance, in the case of import declarations, ARMS triggers controls in 36% of cases (based on the median monthly rate across customs offices for 2024).

The overwhelming majority of these ARMS activations — 88% in 2024 — relate specifically to document and data verification. Other types of customs controls are triggered far less frequently.





Notes:

\*The ARMS performance indicators are based solely on the information on the result of customs formalities

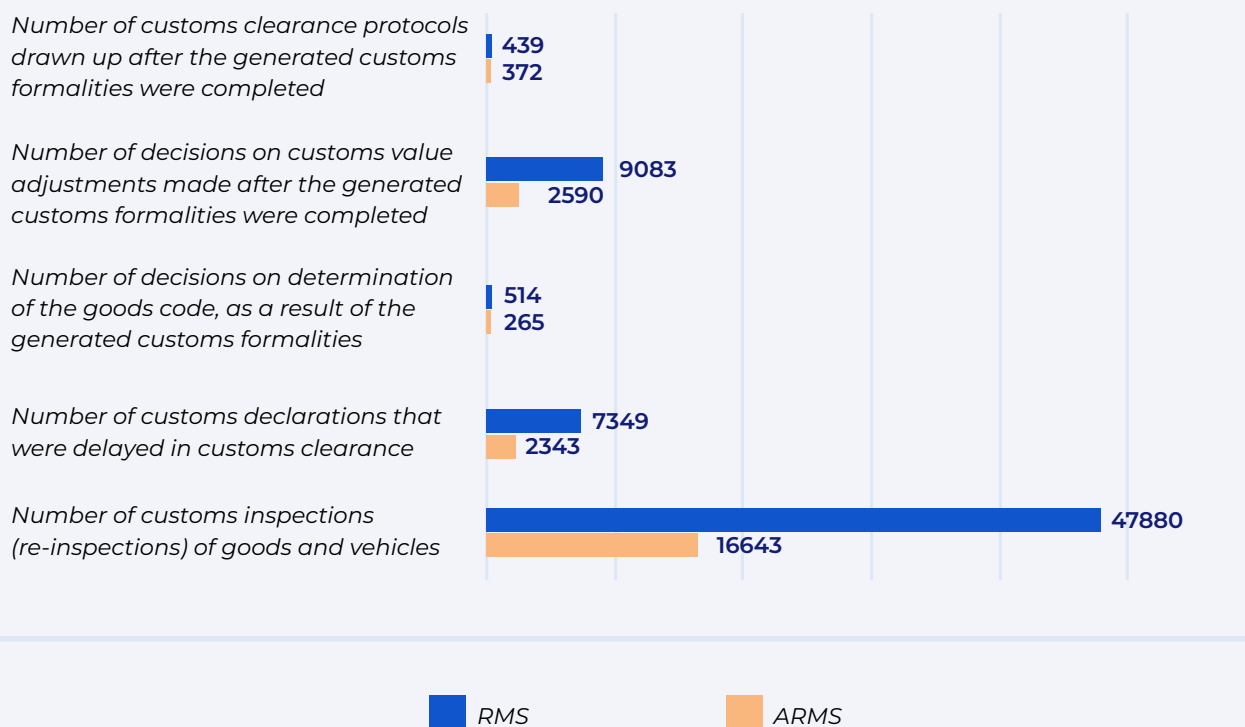
### Chart 3.4.1. Effectiveness of ARMS warning

The effectiveness of ARMS compared to the manual identification of control measures by customs officials remains questionable. As illustrated in the graph, only in cases involving customs value adjustments we can indirectly suggest that ARMS performs reasonably well.

However — as will be shown in the following analysis — even the outcomes of these value adjustment decisions themselves are far from optimal, casting further doubt on ARMS's actual contribution to risk-based targeting and control efficiency.

In 2024, the RMS selected 13 times fewer declarations for additional customs formalities than the ARMS. Even more striking: document and data verification decisions were generated by CRM almost 50 times less frequently than by ARMS. However, the effectiveness of RMS appears superior when comparing not just the volume of selected declarations, but the outcomes of these interventions:





**Chart 3.4.2. Selected performance indicators of the RMS and the ARMS (2024)**

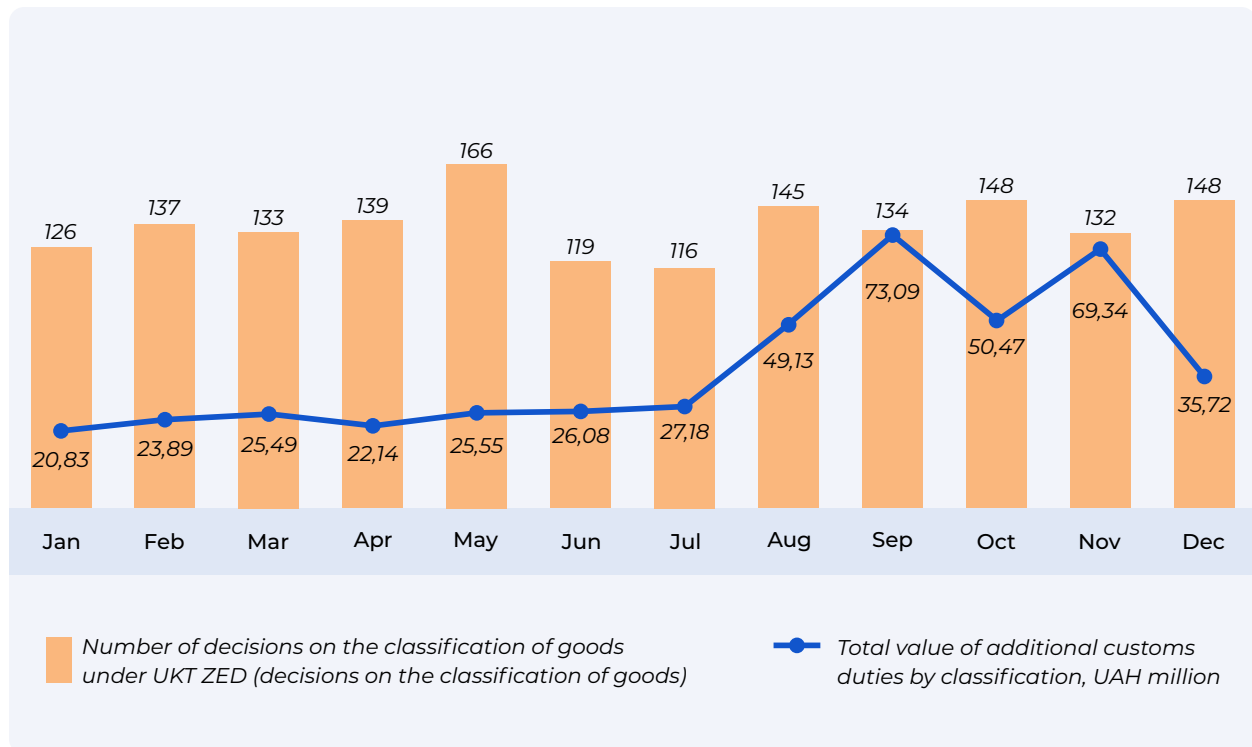
While ARMS outpaces RMS by volume, RMS seems more precise and impactful in proportion to its application. Unfortunately, due to the absence of data on additional customs duties actually collected as a result of these checks, it's impossible to quantify the financial effectiveness of either system.

### ➔ **On Tariff Classification**

The classification of goods under the Ukrainian Commodity Classification for Foreign Economic Activity remains a primary risk vector addressed by ARMS. Since classification directly affects duty rates, misclassification is a common customs offence. Interestingly, in 2024, the number of classification decisions decreased, but the total amount of additional duties assessed rose significantly compared to 2023.

This trend suggests a combination of more targeted interventions by authorities and behavioural adaptation by market operators. The decrease in classification decisions may indicate that traders are changing their compliance patterns and avoiding risky misclassifications, likely in response to previous enforcement actions. Meanwhile, when misclassifications do occur, they appear to involve higher-value cases, resulting in greater duty recoveries per intervention.

Either way, it's a positive signal for the strategic use of control resources — assuming it reflects better profiling rather than under-enforcement.



**Graph 3.4.2. The number of decisions on the classification of goods and the total value of additional customs duties in 2024**

In total, Ukrainian customs authorities issued 1,643 decisions on goods classification in 2024, resulting in nearly 449 million UAH in additional assessed duties.

#### Compared to 2023:

- The number of decisions dropped by 10%,
- But the total monetary impact increased by almost 43%.

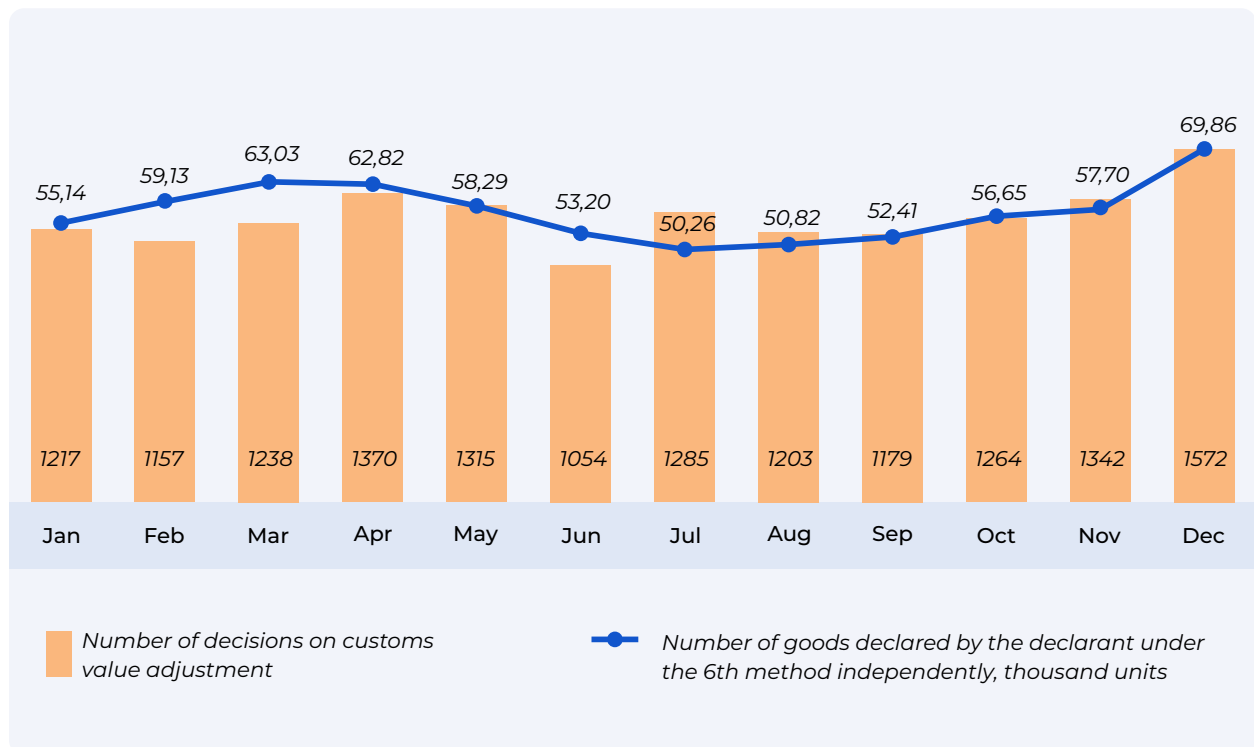
This substantial increase in value was largely driven by high-impact decisions issued between August and November 2024, hinting at either improved targeting, more complex cases, or a shift in enforcement focus toward higher-risk goods.

#### → Customs Valuation Control

Customs valuation — the process of verifying the declared value of imported goods — remains a core control area for the Automated Risk Management System (ARMS) and is closely intertwined with tariff classification. After all, misclassification can obscure

the true value of a good, leading to undervalued declarations and thus underpaid duties.

In practice, value corrections (adjustments made when the declared customs value is deemed inaccurate or non-compliant) serve as both a revenue safeguard and a litmus test for the quality of risk profiling. The system’s ability to correctly flag and investigate such discrepancies reflects its overall maturity and effectiveness — yet, as previous sections showed, the outcomes of ARMS-driven valuation checks still raise questions about proportionality, precision, and actual financial return on control activities.



**Graph 3.4.3. Dynamics of decisions on customs value adjustment and the number of goods of self-declaration under the 6th method in 2024**

In 2024, customs authorities issued a total of 15,196 decisions on customs value determination, which is 16% fewer than the previous year.

At the same time, there remains a significant number of cases where declarants voluntarily apply the sixth (fallback) method of customs valuation. In 2024 alone, declarants used the fallback method for 689,300 goods, representing a slight decrease of less than 4% compared to 2023. However, the total amount of customs duties paid under these self-declared adjustments is striking: UAH 46.6 billion in 2024 — 17 times more than the duties assessed through customs authorities’ valuation decisions.

Moreover, the amount of payments made under the fallback method increased by almost 25% compared to 2023.

According to Ukraine's international commitments under the Agreement on the Implementation of Article VII of the GATT-WTO (the Customs Valuation Agreement), the transaction value method is the primary standard for determining customs value. This approach is based on the invoice value of goods, with specific additional costs—such as freight, royalties, or commissions—added only in cases explicitly provided for by law. Alternative methods, including the fallback method, may only be applied in strict order and only when justified, with the fallback method used only as a last resort when all other methods cannot be reasonably applied.

In principle, under conditions of lawful and transparent importation, the primary method should dominate. Importers should have no objective legal or economic reason to default to the fallback method—doing so may suggest the invoice value is either inaccurate or unacceptable for tax purposes.

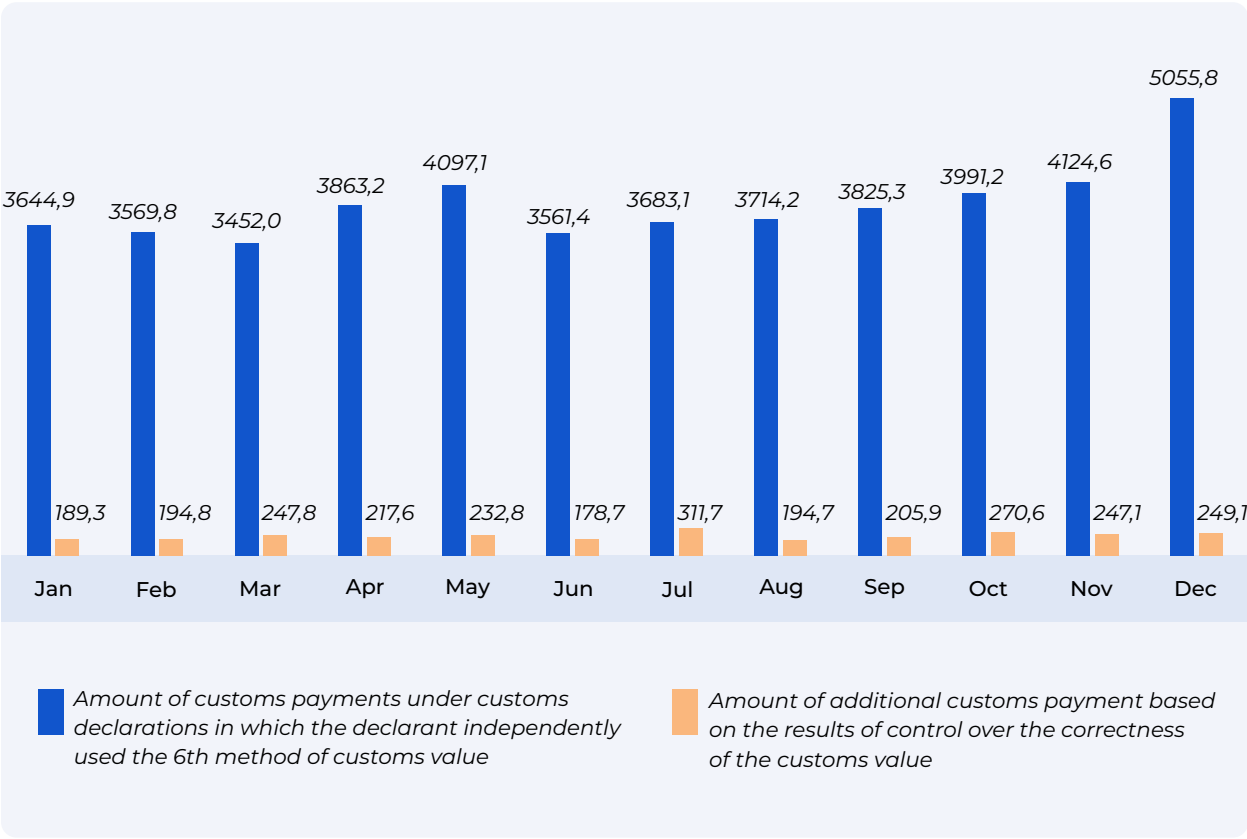
However, based on analytical observations, in both 2023 and 2024 (and likely in earlier years too), the number of fallback-method declarations was 20 to 50 times higher than the number of valuation adjustments initiated by customs. This raises serious concerns about the compliance of actual customs practices with WTO standards.

**There may be several overlapping explanations for this phenomenon:**

- 1 Unofficial use of “de minimis” values: There are indications that customs authorities may be informally applying prohibited minimum valuation benchmarks. When a trigger value falls below an unofficial threshold, importers may avoid disputes and instead accept an imposed value—due to the risk of shipment delays or the cost and complexity of challenging the decision in court. For context, more than 50% of court cases in 2024 related to customs valuation involved disputes over decisions made in previous years, indicating systemic delays and a lack of timely resolution.
- 2 Institutional inertia: Some fallback declarations may result from repeated use of previously agreed valuations. If a customs value was once “accepted” by customs, companies may continue to use it without revalidation—promoting stability but undermining the principle of individual assessment per shipment. This practice entrenches a non-transparent status quo.
- 3 Deliberate obfuscation: The fact that importers proactively choose the fallback method may also point to attempts to obscure the true nature of commercial transactions. For legitimate businesses, reliance on the fallback method is

reputationally risky — as it suggests that invoice values do not reflect the “true value” under GATT-WTO rules. As such, this pattern may signal participation in semi-shadow schemes, or an effort to avoid tighter scrutiny by settling for a pre-negotiated solution with customs.

Given the above, the application of the fallback method merits close examination — both to uncover statistical anomalies and to assess the quality of interactions between customs and business. A top priority must be to guarantee transparency in valuation processes, particularly in situations where invoice values are questioned. This is vital to prevent systematic deviation from Ukraine’s international obligations and curb opportunities for abuse or collusion in import operations.



**Chart 3.4.3. Comparison of the amount of payments independently accrued by the declarant under the 6th method with the amount of payments accrued based on the results of the control of the correctness of the customs value determination (2024, monthly, UAH million)**

The problem gains further analytical weight when examining the ratio between the customs payments made under declarations using the fallback method and the additional amounts assessed by customs authorities through valuation controls. According to available data, the total amount paid under such fallback declarations exceeds by roughly a factor of 20 the total value of additional assessments made by customs. This imbalance produces a paradoxical situation — one that leads to two equally uncomfortable interpretations.

The first scenario assumes that customs authorities — even if unofficially — apply the practice of “de minimis” values. In this case, the overwhelming share of the “economic effect” achieved through customs valuation control is the result of informal practices that cannot be officially reported without violating Ukraine’s international obligations. Under this interpretation, up to 95% of the actual impact of customs valuation controls exists “in the shadows”, raising serious concerns about the legality and transparency of such methods.

The second scenario, however, presumes that customs officials strictly adhere to a formalistic and legalistic approach in assessing customs value, without informal pressure or thresholds. In this case, the same 95% should be interpreted as a sign of an exceptionally high level of voluntary compliance by importers — a proposition that also seems implausible in the current context.

Furthermore, even the monetary value of customs valuation adjustments made by customs authorities is relatively minor in the bigger picture. When measured against the total annual customs revenues collected, the share of adjustments based on customs value corrections represents just 0.46%. And even this small portion is not guaranteed to be collected by customs in full. A significant number of these adjustments are challenged in court — a dynamic exacerbated by the fact that, in 2024, the State Customs Service lost 92.5% of court cases brought by importers to contest customs valuation decisions.

In more than 9 out of 10 cases, courts found the arguments presented by importers more convincing than the methodologies applied by customs officials during valuation control.

As of 2024, disputes over customs value adjustments represented the single largest category of litigation involving the customs service — accounting for 87% of all cases, or 13,410 lawsuits, totalling UAH 3.8 billion.



**Graph 3.4.4. Quantity and customs value of goods declared by the declarant under the 6th method independently by customs (2024)**

Continuing the preceding analysis, it is important to examine the regional distribution of customs declarations in which declarants independently applied the fallback (sixth) method to determine customs value. The available data reveal substantial disparities that suggest the presence of institutional or behavioural anomalies in customs clearance practices across different regions.

For instance, nearly one-quarter of all cases involving the fallback method were processed under the jurisdiction of Kyiv Customs, where in 2024, the customs value declared under this method exceeded UAH 10 billion and covered nearly 200,000 product lines. In several other customs offices, there is a noticeable lack of correlation between the number of goods for which the fallback method was used and the associated customs payments. For example, in Chernivtsi, Dnipro, and Zakarpattia Customs, a relatively small number of goods generated substantial customs payments, whereas in Ivano-Frankivsk, Khmelnytskyi, and Poltava, the opposite trend is

observed: a high volume of items declared under the fallback method is paired with modest payment amounts.

Such imbalances do not align with the expected relationship between trade flow volume, the number of declared items, and customs revenues. They point to possible inconsistencies in how the fallback method is interpreted or applied, or to underlying structural issues in institutional performance and compliance behaviour.

Given that the search for additional revenue streams is officially positioned as one of the customs service's strategic priorities, this data underscores the urgent need for a comprehensive functional review and an audit of existing control mechanisms. These anomalies challenge the effectiveness of using revenue volume alone as a performance indicator, as this approach creates a false sense of fiscal achievement, while systemic irregularities remain unaddressed and hidden from analytical oversight.

### **Post-Clearance Audit: New Approaches and Legal Framework**

Post-clearance audit is conducted after the completion of customs clearance and serves as a retrospective mechanism for verifying the correctness of classification, declared value, and other information that may have been missed or misjudged. In essence, it marks the transition from primary analysis to secondary oversight.

The Law of Ukraine No. [3926-IX](#) of August 22, 2024 significantly revised both the scope and procedure of post-clearance audits, which are now carried out through:

- *pre-audit analysis* of customs declarations for which clearance has been completed;
- *documentary inspections* to verify compliance with customs legislation, including the accuracy, completeness, timeliness, and reliability of customs payments.

**Under the updated legal framework, customs authorities are entitled to verify:**

- the correctness and completeness of the information contained in customs declarations that have already been cleared;
- the accuracy, authenticity, and validity of the documents underpinning customs procedures, including through the audit of business accounting records and supporting documents related to transactions involving the goods, both before and after their release;



- the legality of imports into, or exports from, the customs territory of Ukraine;
- the proper assessment and payment of customs and related duties, including penalties under the jurisdiction of customs bodies.

The SCS extended its pilot project on PCA until April 18, 2025. The project, launched at the end of 2023, is being implemented as one of the audit mechanisms outlined in Article 336 of the Customs Code. However, the pilot remains in limbo due to the lack of a detailed procedure under Article 337-1, which is essential for its full institutionalization.

According to data provided by the SCS, between the start of the pilot and December 31, 2024, customs authorities initiated post-clearance audits for 3,129 customs declarations. Violations or inconsistencies in the declared information were identified in approximately 70% of these cases. As a result of PCA activities, declarants paid UAH 63.5 million following notification from customs authorities.

Furthermore, toward the end of 2024, the SCS developed a draft risk profile specifically for post-clearance audit outcomes, to be reviewed by the Expert Commission for future integration into the national RMS.

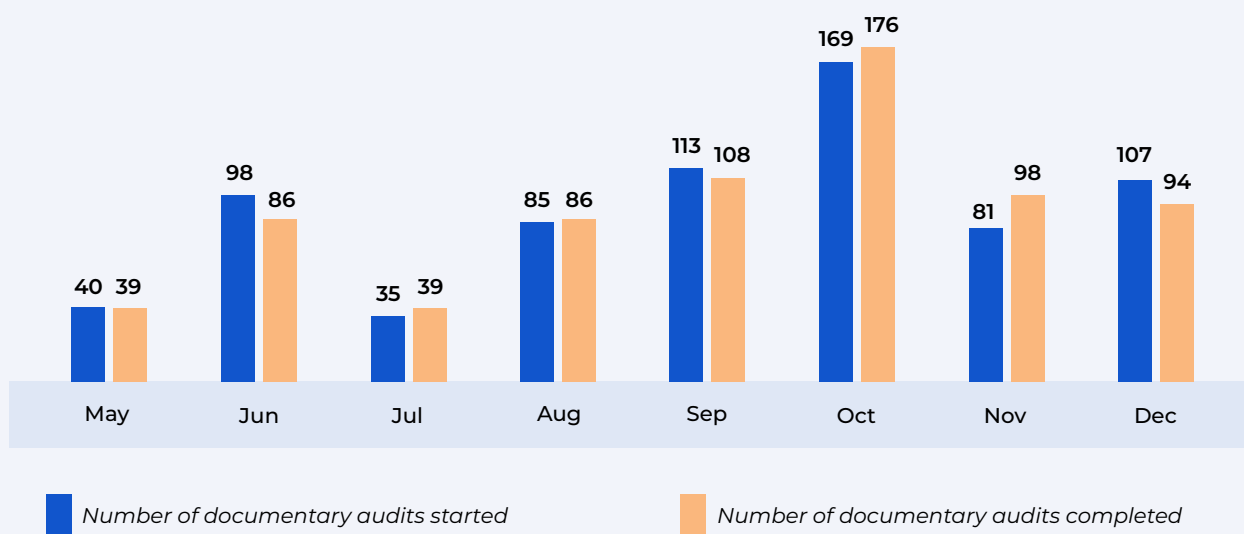
### **Documentary Audits**

Documentary audits — suspended at the onset of full-scale war — were partially reinstated following the adoption of Law No. [3613-IX](#) on March 20, 2024, with implementation starting May 1, 2024. These audits assess a company's compliance with customs-related legislation.

A key condition for conducting documentary audits during martial law is the existence of safe conditions, though the law does not specify who determines this or how safety is to be assessed. Notably, customs authorities may suspend a documentary audit based on a “reasoned request from the taxpayer”.

**Documentary audits partially resumed.**  
**A moratorium still applies from May 1, 2024, to:**

- businesses importing humanitarian aid during the period of martial law;
- enterprises located in temporarily occupied territories of Ukraine;
- businesses operating in active or potentially active combat zones.

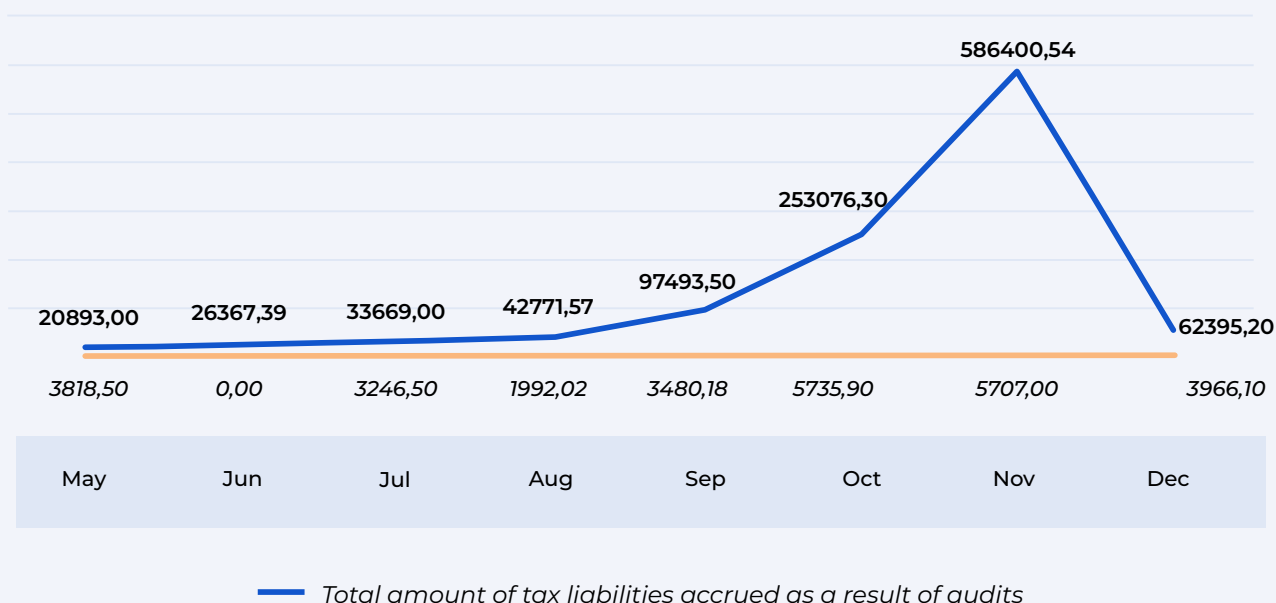


**Chart 3.4.4. Breakdown of the number of documentary audits by month (2024)**

According to data from the State Customs Service, between May and December 2024, Ukrainian customs authorities completed 726 documentary audits to verify compliance with customs legislation. To put this figure in perspective:

- It represents 84% of the total number of audits completed in 2021, a pre-war benchmark year.
- It also exceeds the 2020 figure by nearly 12%, indicating a clear rebound in enforcement activity despite ongoing challenges posed by martial law.

This upward trend suggests a gradual restoration of institutional capacity and an increased emphasis on retrospective oversight, particularly in areas where post-clearance control is critical to ensuring fiscal integrity and compliance with trade rules.



**Graph 3.4.5. The relationship between the total amount of tax accruals and their payment by month (2024)**

Despite the notable number of documentary audits conducted, the actual payment of assessed taxes remains critically low, and the trend shows a deterioration in agreement with audit results.

Nominally, tax payments increased by 22 million UAH compared to 2021. However, the collection rate — the ratio of taxes paid to those assessed — has nearly halved. In 2024, businesses paid only 4.6% of the over 1.1 billion UAH in assessments. By contrast, in 2021, the collection rate stood at 8.7%, even though the total amount assessed that year was three times lower — just 342 million UAH.

This signals a sharp deterioration in tax debt recovery. As of March 2025, 79% of the outstanding 1.23 billion UAH in tax liabilities stemmed from the results of documentary audits. Given this rapid debt accumulation — and considering the three-year statute of limitations — ensuring timely legal follow-up and effective court representation by the State Customs Service becomes paramount.



**Graph 3.4.6. Voluntary payment of customs duties based on available materials in the cases of customs audit units of customs offices (including the results of customs control)**

At the same time, voluntary payment rates among taxpayers significantly outpace the collection rates resulting from audits. In 2024, foreign trade operators voluntarily paid 115.7 million UAH, exceeding the amounts recovered through formal audit procedures.

An analysis of customs duty payments shows a clear pattern: **voluntary compliance** in response to post-clearance controls is substantially higher than payments triggered by documentary audits. This suggests that **businesses** — when engaged in a consultative framework with customs authorities — **are more willing to settle outstanding obligations without coercion**.

However, when additional duties are assessed unilaterally through formal audits, **businesses display a markedly lower willingness to comply**. This contrast reveals a **systemic divergence** between the outcomes of voluntary post-clearance adjustments and **contested audit-based assessments**. The reluctance of businesses to settle audit-imposed charges — particularly when **these are not agreed upon and are legally challenged** — strongly implies that the perceived fairness and transparency of audit procedures is in question. It underscores the need for a thorough **review and potential overhaul** of customs audit methodologies **to restore trust**,

**ensure procedural justice, and foster greater compliance** through mutual accountability rather than confrontation.

### ➔ **Analysis of Progress in Establishing Joint Customs Control**

It is important for Ukraine to develop tools that simplify the movement of goods while ensuring effective forms of control. Joint customs control, which enables the customs authorities of two countries to carry out checks consecutively at a single location, significantly reducing the time required for moving goods. This, in turn, minimizes delays and increases throughput capacity, streamlining trade logistics.

As part of its long-term strategic vision, [Ukraine aims to establish joint control](#) and sign corresponding agreements with all neighbouring EU countries and Moldova by 2030. These objectives are formally embedded in the [Strategy](#) for the Development and Expansion of Border Infrastructure with EU Countries and the Republic of Moldova.

### ➔ **Current Landscape**

As of now, joint control is operational at selected crossing points on the borders with Poland and Moldova, covering both road and rail connections. However, a formal [agreement on joint control](#) exists only with Moldova.

Negotiating such agreements with EU countries is complex due to [Schengen Border Code regulations](#).

In 2024, consultations continued with several EU states regarding agreements on joint checkpoint operations. The most promising development is with Poland, where a draft of the framework agreement has been submitted to the European Commission for review. If approved, this could serve as a blueprint for future agreements with other EU neighbours.

### ➔ **Ukraine — Poland Border**

Currently, Ukraine does not have an active agreement with Poland establishing full joint customs control. However, operational-level arrangements at specific crossings were made in 2002, 2004, 2008, and 2011. As of 2024, five vehicle border crossings operate under joint control:

- Ustyluh — Zosin (since 2007)
- Uhryniv — Dołhobyczów (since 2014)

- Hrushiv — Budomierz (since 2013)
- Smilnytsia — Krościenko (since 2003)
- Nyzhankovychi — Malhowice (launched in 2024)

In all five cases, customs formalities are carried out on the Polish side. The pending agreement on joint checkpoints has been submitted to the European Commission, and its approval may accelerate similar arrangements with other EU countries.

### → **Ukraine — Moldova Border**

Ukraine's joint customs arrangements with Moldova are the most advanced. The original [agreement](#) was signed in 1998 and [updated](#) in 2018 to include railway checkpoints.

As of May 2024, joint control began at the Reni — Giurgiulești road checkpoint on Ukrainian soil. There are now four vehicle checkpoints operating under joint control:

- Mamaliga — Criva (since 2006);
- Rososhany — Briceni (since 2012);
- Mayaky — Udobne — Palanca (since 2018);
- Reni — Giurgiulești (since 2024).

### **On the railway side, significant progress was made:**

- In 2023, Ukrainian officers began conducting customs formalities at the Serpneve 1-Basarabeasca railway checkpoint on Moldovan territory.
- In January 2024, joint control was launched at Kuchurhan - Novosavyske on the Ukrainian side.

### → **Ukraine — Romania Border**

Joint checkpoints with Romania hold strategic importance, especially due to Romania's Black Sea access, vital for Ukraine's export resilience. In 2024, Ukraine held consultations with Romania on the text of a future agreement establishing joint checkpoint control, though implementation is still pending.

### → **Ukraine — Hungary Border**

The Ukraine — Hungary border highlights the challenges of implementing joint checkpoint models. The Velyka Palad-Nagyhódos crossing was originally scheduled

to open as a joint facility back in 2014, but bureaucratic obstacles caused repeated delays. Ultimately, the checkpoint was opened on April 8, 2025, as planned.

Another planned freight checkpoint — Dyyda-Beregdaróc — has been [under discussion](#) since 2012, but remains unrealized. This delay is particularly problematic because [only one checkpoint](#) on the Ukraine — Hungary border — Chop-Záhony — currently allows the passage of heavy trucks (7.5 tonnes or more).

In 2024, bilateral consultations resumed on drafting a joint agreement, and these efforts are ongoing.

### **Ukraine — Slovakia Border**

Throughout 2024, the State Customs Service and other government bodies engaged in negotiations with Slovak authorities to prepare and sign an agreement on cooperation for joint checkpoint control of people, vehicles, and goods. While no agreement has been finalized yet, these talks signal a commitment to expanding joint control across all EU borders.

In summary, while joint customs control remains fragmented and uneven, the 2024 developments show measured but tangible progress, particularly in the Polish and Moldovan directions. To realize its 2030 strategic goals, Ukraine must focus on:

- finalizing and expanding existing pilot agreements;
- aligning domestic infrastructure with EU legal standards;
- ensuring mutual political commitment with neighbouring countries.

The success of these efforts will be critical not only for smoother border procedures but also for Ukraine's long-term economic integration into the EU's single market.

### 3.5. Anti-Corruption Management

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Public perception of corruption within the customs service remains consistently high in comparison to other government bodies. According to [recent surveys](#), 35% of entrepreneurs reported experiencing corrupt practices when interacting with customs. However, the number of detected and officially confirmed violations differs significantly from this — and previous — public assessments, highlighting a persistent gap between perception and enforcement.

The fundamental ethical standards and expectations for officials of the State Customs Service of Ukraine (SCS) are anchored in the Laws of Ukraine “[On Civil Service](#)” and “[On Prevention of Corruption](#)”. Additionally, the revised [Arusha Declaration](#) holds significant weight in the customs context, outlining 10 core principles aimed at fostering integrity and preventing corruption within customs administrations globally.

To reinforce these norms, the SCS has [adopted and implemented](#) both a Code of Ethical Conduct and Ethical Conduct Rules for its personnel. These internal instruments are designed to operationalize ethical principles and guide officials in their day-to-day professional behaviour.

Throughout 2024, the SCS conducted an extensive ethics education campaign, delivering 966 training sessions across its central and regional divisions. In total, around 40,000 participant sessions were logged — a figure exceeding the total number of customs personnel, indicating that many officers attended multiple sessions. This reflects an institutional push to embed ethics more deeply in operational culture.

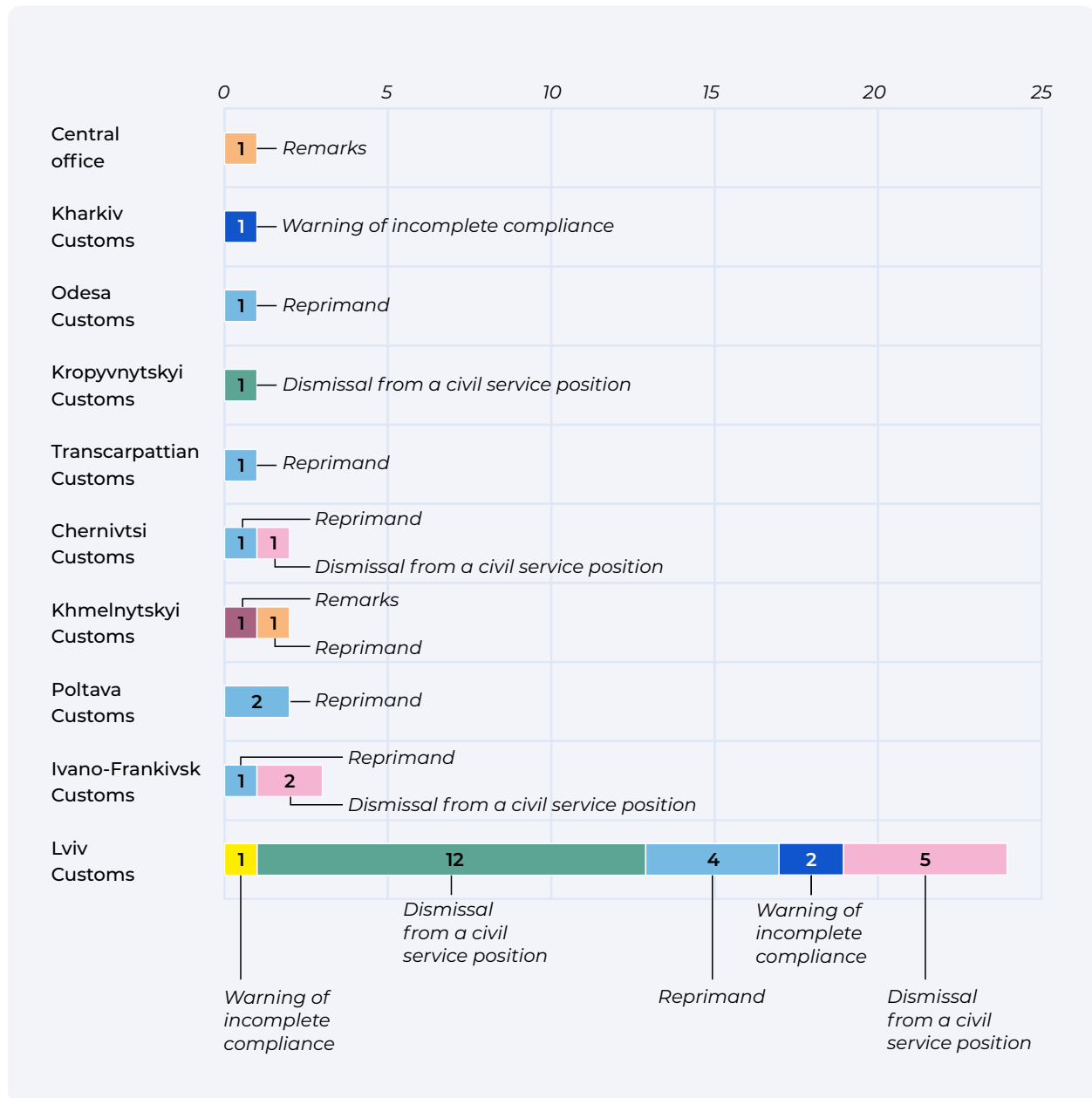
Customs officers were also offered consultations on ethical conduct, with 3,028 consultations provided in 2024 — a 6% increase compared to 2023. These sessions served as informal advisory tools, helping officers navigate complex situations and reinforcing their understanding of behavioural expectations.

However, the intensity and frequency of ethics training varied notably across different customs offices. For instance, Chernivtsi, Coordination and Monitoring, Odesa, Dnipro, and Kharkiv customs conducted the highest number of training events. Meanwhile, Kyiv, Volyn, and Sumy customs reported the highest attendance levels. This uneven distribution might suggest that customs offices with higher compliance risks — either due to past incidents or volume of operations — were prioritized for more robust ethics engagement.

In sum, while institutional frameworks and proactive training efforts are being strengthened, the discrepancy between perception and enforcement remains a key



challenge. Addressing it will require not only ethics education but also a visible and consistent disciplinary response, transparent accountability mechanisms, and continued cultivation of a culture where integrity is both taught and lived. A positive effect on compliance with anti-corruption standards is also expected from a review of the approach to remuneration. This applies in particular to inspectors working on the front line, who have considerably low salaries compared with the level of responsibility, required expertise, and exposure to corruption risks.



**Chart 3.5.1. The number of disciplinary sanctions imposed on customs officials as a result of disciplinary proceedings, broken down by types of disciplinary sanctions for violation of ethical standards**

As shown in the accompanying chart, the number of disciplinary actions taken against customs officers increased in 2024 — rising to 23 cases from 15 in 2023. This indicates a modest but notable intensification in internal accountability efforts within the State Customs Service of Ukraine (SCS). The Lviv Customs Office emerged as the leader in the number of disciplinary sanctions, primarily due to 17 dismissals from civil service positions recorded over the 2023–2024 period. This high concentration of disciplinary measures suggests either heightened scrutiny or more frequent misconduct cases in that jurisdiction — both of which warrant deeper examination.

In contrast, Ivano-Frankivsk Customs had significantly fewer actions applied in 2024 — one formal reprimand and two dismissals. Other customs offices listed on the chart reported only one or two instances of disciplinary measures over the same period.

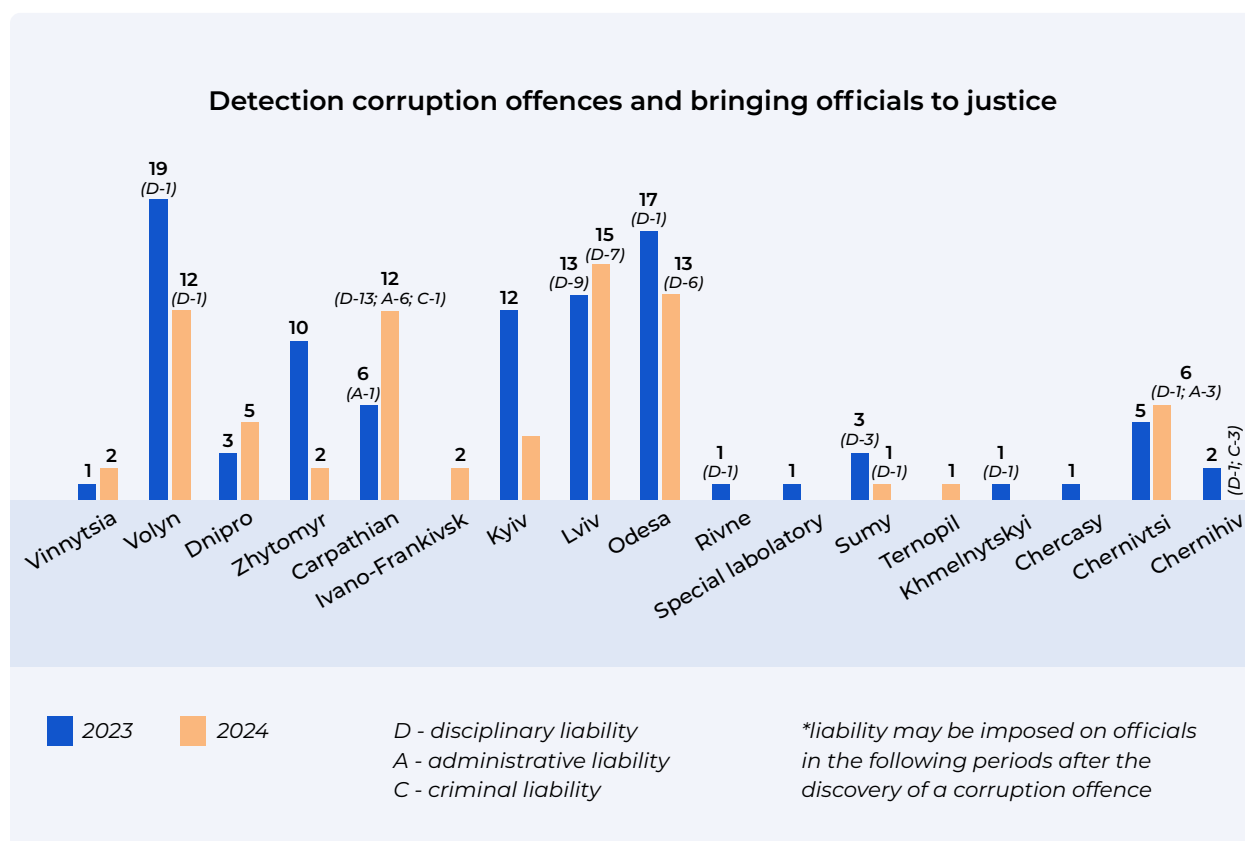
These figures, while small in absolute terms, raise important questions about the consistency and equity of enforcement across regions. Are low numbers a sign of higher compliance — or limited detection and underreporting?

This leads into a broader analysis of the effectiveness of internal investigations and the prosecution of those involved in corruption within the SCS and its subdivisions. A comprehensive evaluation must consider not only the number of sanctions, but also:

- the nature and severity of infractions,
- the timeliness and transparency of investigations,
- and whether disciplinary action led to criminal proceedings or systemic changes.

Without this contextual data, it's difficult to assess whether the disciplinary framework serves as a meaningful deterrent or a symbolic gesture. What's clear is that numbers alone don't tell the whole story — especially in an institution where public trust hinges on visible and credible action against wrongdoing.

## → Analysis of the Effectiveness of Investigations and Accountability for Corruption Offences within the State Customs Service and Its Units



**Chart 3.5.2. Detecting corruption offences and bringing officials to justice**

In 2024, customs authorities reported 75 incidents of suspected corruption involving their officials — a 21% decrease compared to 2023. However, the regional concentration of these suspicions remains largely unchanged: Lviv, Odesa, Zakarpattia, Volyn, and Chernivtsi customs offices were again among the top hotspots.

When it comes to confirmed corruption offences, the highest numbers were likewise found in Zakarpattia, Lviv, Odesa, and Chernivtsi — underscoring persistent integrity challenges in these regions.

However, criminal accountability remains the exception rather than the rule. Most confirmed cases result in administrative or disciplinary sanctions, not criminal prosecution — a fact that may undercut the deterrent effect of enforcement efforts.

## → **Recruitment of the Head of the State Customs Service: Lessons from Prior Competitions**

As part of a broader structural clean-up, the Cabinet of Ministers approved the National Revenue Strategy *in late 2023*, with a specific chapter dedicated to de-corrupting and re-staffing the Customs Service. Reform momentum intensified in July 2024, when the updated IMF Memorandum introduced a structural benchmark: Ukraine must appoint a new Head of the State Customs Service and heads of regional customs offices by the end of June 2025.

To operationalize this, the Ukrainian Parliament adopted Law No. [3977-IX](#) on September 17, 2024, which introduced a new legal framework for selecting the Customs Service chief. *The law entered into force on October 31, 2024.*

### **Under the new rules:**

- the Cabinet of Ministers appoints the Head of the SCS,
- based on a nomination from the Minister of Finance,
- selected via a competitive process administered by a six-member selection commission.

### **Composition of the Commission:**

- 3 members nominated by international and foreign organizations that have supported Ukraine's reform, financial, or anti-corruption agendas over the past three years.
- 3 members nominated by the Ministry of Finance.

Crucially, international representatives hold decisive weight: for a decision to be valid, at least four votes are required, including a minimum of two votes from the international side.

### **The commission is responsible for:**

- setting competition procedures,
- defining evaluation criteria and testing methods,
- reviewing applications and interviewing candidates,
- finalizing the shortlist (two candidates).

Once the shortlist is approved, it is sent to the Minister of Finance, who formally submits a candidate to the Cabinet of Ministers for appointment. The Cabinet then has 10 days to vote on the nomination in an open session.

However, as of end of June 2025, the Cabinet has not yet appointed the commission, despite a legal obligation to do so by January — a delay that has effectively stalled the recruitment process. The absence of a CMU decision on the composition of the selection board hinders the reform of the selection of a new head of the State Customs Service.

At the end of May 2025, the IMF and Ukrainian authorities reached a Staff Level Agreement on the Eighth Review of the Extended Fund Facility (EFF) Arrangement. In the talks on customs reform, the parties agreed on the need to quickly appoint a head of the State Customs Service.

On 6 June 2025, the Prime Minister of Ukraine stated that continuing the customs reform would be expensive and require hundreds of millions of dollars, so the process of selecting a head would be postponed until December 2025.

According to [Igor Smelyanskii](#), the Government Commissioner for Customs Reform, the reform was supposed to be financed by USAID for 80–90%, so a change in the financing model is needed to continue the process.

This mirrors similar issues seen in previous competitions, notably the selection process for the Head of the BES, where lack of urgency and procedural ambiguity allowed critical reforms to stall.

# CONCLUSIONS



An assessment of Ukraine's progress in aligning its customs regulations and practices with those of the EU reveals a number of trends and issues that are important for the further successful course of European integration and improving the efficiency of customs administration.

## **I. Approximation to EU customs legislation.**

The fragmentary amendments to the Customs Code of Ukraine made in 2024 raise questions about the benefits of introducing specific measures on the eve of the introduction of a new version of the entire Customs Code, which should correspond to the EU Customs Code. The development of the new Customs Code already has several problems that may affect the ability to provide feedback from businesses and the public, the quality of the document, and the practical implementation of its provisions. The dead line for the introduction of the new Customs Code has been postponed. As of the end of June 2025, the draft Code had not been made public. The current schedule for discussions of the new version of the Customs Code until its approval by parliament raises doubts about the feasibility of conducting meaningful consultations with stakeholders.

Law No. 3926-IX, aimed at adapting certain provisions of EU legislation, contains certain inconsistencies and creates legal uncertainty. The implementation of the changes is also slow and faces difficulties caused by the non-publication or pending approval of key secondary legislation and limited public consultation during the development of drafts.

## **II. Development of NCTS and AEO.**

The expansion of the use of the New Computerised Transit System (NCTS) has entered a phase of stable plateau after initial growth against the backdrop of growth in total foreign trade, indicating the potential exhaustion of the initial effect and the presence of restraining factors.

The Authorised Economic Operator (AEO) programme is showing moderate growth. The low number of AEO-S (security and safety) certificates is a significant constraint on the start of negotiations with the EU on mutual recognition of AEOs. The abolition of practices known as 'national simplifications' has not led to the expected transition of businesses to the AEO model, indicating the need to find more attractive and adapted alternatives. A formal approach to the implementation of the AEO institu-

tion, without taking into account the realities of the Ukrainian business environment and providing effective incentives, reduces its effectiveness.

### **III. Digital transformation of the State Customs Service of Ukraine.**

Despite the existing technical potential of the State Customs Service to adapt IT systems to EU standards, as evidenced by the timely implementation of phase 5 of the NCTS and progress in the implementation of CDS.UA, the overall digital transformation is slowing down. The key limiting factor is insufficient coordination with the Ministry of Finance of Ukraine (MoF) on policymaking, legal regulation and the adoption of subordinate legislation. There is a view that transferring the authority to administer customs digitalisation to the MoF may be counterproductive in the absence of adequate institutional capacity within the ministry.

An analysis of the implementation of the Strategic Plan for Digitalisation reveals uneven progress across individual projects. In this regard, the plan itself needs to be reviewed and updated.

### **IV. Risk management and customs control.**

The results of the risk management system remain uneven. The prevalence of ineffective control measures (document checks) and the lack of integrated data on the detection of violations make it difficult to assess the effectiveness of these systems.

Customs valuation remains a key element of risk-based control, but the practice of using the reserve method raises concerns about compliance with international standards. The abnormally high number of cases of self-application of the reserve method by declarants, which significantly exceeds the number of adjustments made by customs, may indicate structural distortions, informal practices or low compliance with the declared value. The significant number of court disputes involving importers challenging customs value adjustments and the high percentage of cases lost by the State Customs Service in court indicate the need to review approaches to customs value control.

The effectiveness of post-customs control needs to be improved, as evidenced by the higher level of voluntary payment of customs duties by taxpayers compared to payments resulting from audits. This may indicate systemic discrepancies between voluntary adjustments and decisions resulting from documentary audits.

Progress in establishing joint customs control with EU countries is limited by the Schengen Borders Code regulations, which only allow control at joint border crossing points with third countries.

## **V. Combating smuggling and corruption.**

Despite the criminalisation of significant volumes of illegal movement of goods, practical results remain limited: few cases reach court, convictions are rare, and large-scale smuggling networks continue to operate. Effective implementation of reforms to combat smuggling remains unlikely without institutional (personnel) renewal and systematic capacity building in both the State Customs Service and the Economic Security Bureau (ESB).

Granting the State Customs Service operational and investigative powers, although recognised as necessary, is currently limited to sporadic inter-agency coordination. The implementation of such powers poses a number of challenges, including determining the legal status of the customs service, creating appropriate units, staffing, financial burden, and the need for synchronisation with the EBB's functionality.

## **VI. Human resources and institutional capacity.**

The low level of remuneration in the State Customs Service compared to the commercial sector is a significant obstacle to the formation of high-level internal teams necessary for the implementation of complex IT projects. The imbalance in the remuneration structure, where front-line employees receive less than administrative and support staff, is unjustified.

Training of employees in the areas of European integration is selective and insufficient, which indicates a lack of a systematic approach to staff development. The need to renew the composition of the State Customs Service and include young people remains a priority for the agency.

The introduction of a new model for selecting the leadership of the State Customs Service (Law No. 3977-IX) is aimed at reducing the political influence of appointments and strengthening institutional stability. The process of forming a competition commission is currently being delayed due to the fault of the Cabinet of Ministers of Ukraine. This may affect the effective progress of the reform and the fulfilment of international obligations.



## **VII. Communication and coordination.**

The State Customs Service has established contacts with business associations, which it supports through public communications and meetings. The effectiveness of interaction needs to be improved — developing the customs service's ability to receive and process feedback from businesses, providing not only explanations but also answers to problematic questions. Businesses emphasise the importance of establishing official, permanent and reliable channels of communication for obtaining advice and explanations. In this regard, the development of effective tools for coordination and communication with stakeholders remains insufficient. There is a need to create a unified database of explanations of customs legislation that would cover most business issues and relieve the burden on customs.

Involving the public in the formation and implementation of public policy requires going beyond formal procedures and ensuring that proposals with proper justification are taken into account. The effectiveness of the State Customs Service's public consultations is difficult to assess due to the limited public information available.

Interaction with the public also requires the State Customs Service to take a public position on issues raised at meetings of the Public Council under the State Customs Service, in particular by publishing responses to its decisions on its website.

## **VIII. Financial resources.**

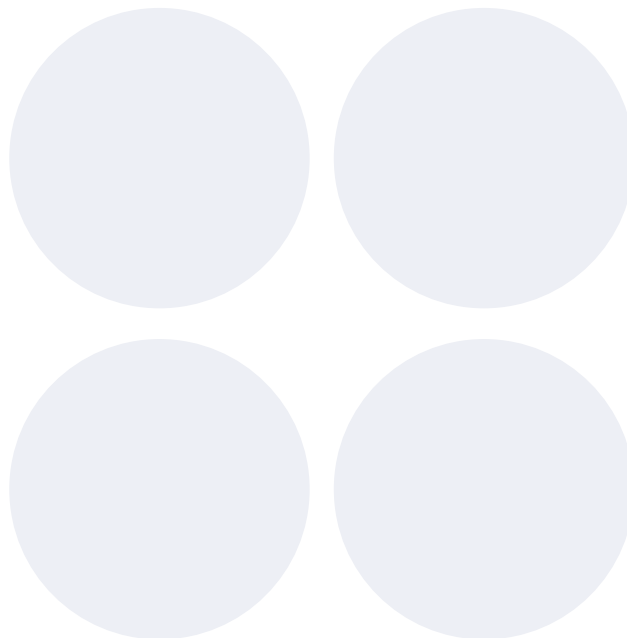
The lack of a specialised budget programme for digitalisation complicates long-term planning and creates dependence on international aid. Limited budget funding also affects the expansion of the internal IT team, which is important for further successful progress in the development of IT solutions at customs.

The conclusions indicate that comprehensive overhauls are needed to ensure effective European integration and improve the quality of customs administration, aimed at:

- accelerating the harmonisation of customs legislation with EU law and ensuring effective consultation and implementation of adopted standards;
- accelerating digital transformation with proper coordination and financial support;
- improving risk management and customs value control systems in line with international standards;

- stepping up the fight against smuggling and corruption by developing law enforcement functions and ensuring effective interagency cooperation;
- carrying out comprehensive reform of personnel policy, including increasing salaries, training and updating the workforce;
- developing effective channels of communication and coordination with business and the public;
- ensuring adequate funding for the implementation of the strategic objectives of the State Customs Service.

Further monitoring of progress in these areas is critical to assessing Ukraine's readiness for deeper integration into the EU Customs Union.





## → **Approximation of Ukrainian customs legislation to the EU acquis**

1. Ensure consultation with businesses and the public on the implementation of Law 3926-IX and the draft new Customs Code of Ukraine, which is harmonised with the EU Customs Code.
2. Take into account the assessment set out in this report and start working on the implementation of EU regulatory acts relating to customs, including, but not limited to:
  - a. Regulation (EU) 2018/1672 on controls on cash entering or leaving the EU;
  - b. Regulation (EC) No 273/2004 on drug precursors;
  - c. Regulation (EC) No 111/2005 laying down rules for monitoring trade between the EU and third countries in drug precursors;
  - d. Council Regulation (EC) No 116/2009 of 18 December 2008 on the export of cultural goods.

Separately, it is also necessary to determine how to implement Regulation (EC) No 1186/2009 establishing a Community system of duty reliefs.

3. Identify incentives to attract businesses to the AEO programme and implement them within the framework of the programme.
4. Create a digital database of explanations of customs legislation.

## → **Criminalisation of smuggling**

1. Ensure monitoring and take into account law enforcement issues identified as a result of the analysis of the criminalisation of smuggling.
2. Coordinate with businesses and the public, respond to their reports of possible smuggling schemes.

## **→ Grant the State Customs Service of Ukraine the status of law enforcement agency**

1. Develop the structure of customs authorities' operational and investigative units, analyse and update legislation to ensure their powers are in line with international standards.
2. Identify needs and purchase the necessary equipment, create an appropriate information infrastructure, recruit and train staff, including through international exchange programmes.
3. Establish and maintain cooperation with national law enforcement agencies and international organisations (WCO, OLAF, Interpol), participate in international operations.
4. Introduce indicators for assessing the performance of the customs law enforcement unit (KPIs), conduct regular audits of its activities, ensure transparency for society and protect the interests of honest businesses.

## **→ Digitalisation of customs**

1. Ensure coordination of the digitalisation processes of the State Customs Service with the Ministry of Finance of Ukraine, in particular in terms of policy development and the formation of subordinate regulatory and legal acts.
2. Regularly review and update the Long-Term National Strategic Plan for Digital Development, Digital Transformation and Digitalisation of the State Customs Service of Ukraine and its territorial units based on the EU Multi-annual Strategic Plan for Electronic Customs (MASP-C).
3. Create conditions for an adequate level of financial support for the digitalisation of customs processes, in particular by establishing a separate specialised budget programme.
4. Transition to project-based models of digitalisation process management at customs.
5. Resolve the issue of human resources needed for digitalisation, in particular by considering the possibility of outsourcing or offshoring.

## → **Human resources capacity of the State Customs Service.**

### **Combating corruption**

1. Review the model of remuneration and compensation for customs employees, focusing on organisational structure, functional workload and risk level.
2. Classify positions according to the level of professional and/or corruption risk and calculate the corresponding compensation coefficients.
3. Introduce additional incentives at customs depending on the classification of positions.
4. Introduce performance evaluation of State Customs Service employees based on key performance indicators.
5. Develop and implement comprehensive professional staff skills development programmes.
6. Launch and conduct a transparent competition to select the Head of the State Customs Service.

## → **Coordination and communication**

1. Develop paperless forms of coordination and consultation within the State Customs Service and its territorial divisions.
2. Process and provide feedback to businesses and the public upon their request within the scope of its competence.
3. Continue to develop the HelpDesk service and extend its functionality to other areas of customs affairs.
4. Consider the creation of regional advisory groups to coordinate business and the public at individual regional customs offices, and, if the initiative is successful, extend the practice to all customs offices.
5. Ensure the strengthening of the role of the Public Council under the State Customs Service in the processes of forming and implementing state customs policy, ensuring personnel selection, and considering disciplinary proceedings against customs officials.

6. Ensure transparency in the State Customs Service's response to the decisions of the Public Council by publishing them on the official website of the authority.
7. Ensure the publication of reports on the results of public consultations, highlight the positions of the public and the analysis of these positions in the reports.
8. Develop and approve annual work plans for the State Customs Service in a timely manner. Ensure the publication of an annual report on the work of the State Customs Service in a machine-readable format. Publish reports on the work with an assessment of progress on each task, indicating difficulties and possible changes that affected the implementation of the task.

#### **Risk management and post-customs control. Joint customs control**

1. Pay attention to the analytics presented in this document regarding the selectivity, effectiveness and economic efficiency of the risk management system, develop and implement an assessment of the economic effect of the system's operation.
2. Take into account data on customs value adjustments made independently by customs authorities and declarants using the 6 (reserve) method of determining customs value.
3. Take into account data on judicial appeals against customs value and review the policy on customs control.
4. Pay attention to the effectiveness of post-customs control and its advantages in terms of economic effect compared to documentary audits.
5. Continue efforts to establish control at joint checkpoints.

