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# Assessment Report

## on the current state of Ukrainian Customs administration and their needs for modernization towards the EU alignment

# Contents



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# 1. Introduction

Over the years, Ukraine has made multiple attempts to conceptualize reform of the customs service. Individual concepts, plans, and “roadmaps” often placed the right emphasis on anti-corruption measures, digitalization of procedures, and facilitation for business.

However, they all shared a fundamental shortcoming: they were inward-looking. These approaches treated the customs service in isolation—detached from the broader system of public administration, the country’s socio-economic context, and, most critically, the global economic environment. As a result, they focused predominantly on organizational structures, internal regulations, and procedural bottlenecks.

None of the earlier approaches extended beyond the national framework or offered a meaningful analysis of the wider external environment: the state of international trade and economic integration, transformations in global supply chains, the emergence of new formats of international institutions, or the rise of clustered globalization.

Due to insufficient attention to the rapid growth of e-commerce, technological revolutions, and political and military factors that are reshaping the role of customs administrations worldwide, domestic reform concepts remained fragmented and increasingly disconnected from the realities of the early twenty-first century.

Alongside purely internal challenges faced by the Ukrainian state—and the customs service in particular—new external pressures are emerging: shifts in the global trading environment, the reconfiguration of international supply chains, and the strengthening of regulatory and sanctions regimes. These factors will necessitate a rethinking of the role of customs as a key element of national security.

Over the past decades, the role of customs authorities has significantly expanded, moving beyond their original fiscal functions to encompass security, regulatory control, financial supervision, and the implementation of broader public policies.

At the same time, customs administrations are increasingly, and disproportionately

to the growth of their institutional capacity, being tasked with enforcing non-customs requirements of other competent authorities, which will affect the operational efficiency of customs administrations.

Further integration with the European Union and the prospect of full membership will require Ukraine to clearly position the customs service within the system of state functions, while simultaneously embedding it into the evolving institutional ecosystem of the EU.

In this context, the Ukrainian customs service will operate in a dual environment: on the one hand, as part of the national administrative hierarchy; on the other, as an integrated component of the EU's common customs area, where a significant share of regulations, risk profiles, data-exchange standards, and control mechanisms are shaped at the supranational level.

Such a configuration gives rise to a set of strategic challenges that will determine the trajectory of further customs reform. The global trends shaping the geopolitical and geoeconomic landscape, the multiplicity of factors influencing the work of modern customs administrations, and the severity of the challenges Ukraine faces in the course of modernization and European integration all point to the need for a clear and coherent Strategy.

At the same time, it is important to emphasize that this document is not a customs reform strategy. Rather, it is intended to serve as an analytical basis and intellectual foundation for the development of a realistic and forward-looking Strategy for the development of the State Customs Service of Ukraine.

This Report pursues several objectives.

- **First**, to initiate a substantive discussion on the role of customs administrations in a new world shaped by war, technological transformation, and global fragmentation.
- **Second,** to assess the challenges and realistic opportunities for reform in Ukraine, drawing not only on the internal context but also on the broader economic and political environment.
- **Third**, to propose a target model for the Ukrainian customs service—one capable of responding to multi-level challenges, adapting swiftly and effectively

to a rapidly changing environment, and articulating its own policy agenda.

- **Fourth**, to support broad alignment around this vision among public authorities, the business community, international partners, and the expert community.

Accordingly, this Report should be understood as a starting point for building consensus on what the Ukrainian customs service should become by the third decade of twenty-first century: evolving from a national institution burdened by internal challenges into a modern, European, mobility-oriented, and security-focused authority.

## 2. Transformation of Trade

According to the World Bank, the share of global trade in goods and services in world GDP stood at 31.1% in 2022, returning to the level last observed in 2005.

The period of ultra-globalisation (from the 1990s through the 2010s) was characterised by rapid trade liberalisation, the expansion of global value chains, and the growing influence of the World Trade Organization (WTO) and regional trade agreements.

However, the past decade has marked a reversal of this trend. Trade tensions between the United States and China, sanctions regimes imposed after 2014 and 2022 in response to the annexation of Crimea, the war in Donbas, and Russia's full-scale invasion of Ukraine, as well as the broader crisis of international institutions (including the WTO, IMF, and World Bank), have fundamentally altered the global trade environment.

While global trade growth has not come to a halt, its pace has slowed significantly. As a result, the current phase is more accurately described not as deglobalisation, but as "slowbalisation."

At the same time, assessments by the WTO and the IMF, indicate that the global economy is entering a phase of geoeconomic fragmentation. Trade between so-called "geopolitical blocs" is growing 4–6 percentage points more slowly than trade within those blocs, signalling the erosion of traditional global linkages and a shift

towards more regionalised trade models.

In strategic sectors—most notably semiconductors—policy decisions are increasingly driven by geopolitical considerations rather than economic efficiency. According to WTO Director-General Ngozi Okonjo-Iweala, such fragmentation could cost the global economy up to 5% of GDP in the long term, while the IMF projects even deeper losses of up to 7% of global GDP.

The IMF has also articulated a strategic vision of the risks and challenges associated with geoeconomic fragmentation (as outlined in “Cold War II? Preserving Economic Cooperation Amid Geoeconomic Fragmentation,” Plenary Speech by IMF First Deputy Managing Director Gita Gopinath at the 20th World Congress of the International Economic Association, Colombia. This vision highlights a profound transformation of the global order, in which geopolitical factors increasingly outweigh considerations of economic rationality. Recent events—including the COVID-19 pandemic, Russia’s full-scale invasion of Ukraine, and restrictions on technology exports—have acted as catalysts for the fragmentation of the global economy into competing blocs.

The traditional architecture of international trade, built around multilateral rules and institutions—above all the WTO—is experiencing a systemic crisis. Due to the inability to reach a comprehensive agreement, the Doha Development Round, officially launched in November 2001, remains formally unfinished.

As a result, the WTO has effectively lost its capacity to perform its core functions:

- facilitating the conclusion of global trade agreements;
- exerting influence on members in cases of non-compliance with commitments (including reporting obligations);
- acting as an arbiter in dispute settlement and a guarantor of agreed rules.

This situation stems from several factors: the United States’ blocking of the WTO Appellate Body, China’s reluctance to open its domestic market and dismantle its extensive system of state subsidies, and a broader tendency among leading economies to disregard “the rules of the game” when these conflict with national interests.

The retreat from multilateralism has fuelled the rise of new forms of “economic

nationalism” and reinforced the fragmentation of global supply chains. Under conditions of heightened geopolitical tension, major global actors are increasingly prioritising supply-chain security, particularly in areas related to defence industries, technology, energy, information, and food security.

For example, the United States adopted the CHIPS and Science Act to localise production within the United States (or allied countries) and reduce dependence on Taiwan and the People’s Republic of China. The European Union has launched the EU Chips Act with similar objectives, while China is investing heavily in domestic semiconductor production and restricting access to rare earth materials.

As a result, several segmented semiconductor markets are emerging, characterised by differing standards and technological spheres of influence. Similar developments may extend to other categories of goods.

Against the backdrop of WTO paralysis, alternative frameworks are gaining prominence. The concept of “open plurilateralism,” promoted by a number of experts including Michael Froman, envisages the formation of coalitions of states willing to commit to high standards in trade, industrial policy, technology, or the digital economy.

Trade conducted on most-favoured-nation (MFN) terms—that is, under WTO tariff regimes—has declined from 80% in 2020 to 74% in 2025. Correspondingly, trade conducted under preferential regimes (within FTAs and PTAs) has increased from 20% to 26%. Moreover, as of the end of May 2025, trade measures—such as special duties or restrictions—covered 19.4% of global imports, a sharp increase from 12.5% in 2024.

The retreat from multilateralism has thus become a defining trend. The United States–Mexico–Canada Agreement (USMCA, 2020), for example, закрепед more favourable conditions for U.S. automotive manufacturing, digital trade, and intellectual property protection.

Brexit, in turn, created an institutional basis for the United Kingdom to pursue new trade partnerships outside the EU. The UK has actively concluded its own free trade agreements (with Australia, Japan, Norway, Singapore, among others) and has joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Despite its pseudo-bloc character, the russia-led Eurasian Economic Union is also attempting to promote a network of trade agreements and negotiations with states adopting authoritarian or pragmatically neutral positions. Free trade agreements have been concluded with Iran and Vietnam, while negotiations are ongoing with India, Indonesia, Egypt, the United Arab Emirates, and several other countries.

Tariff wars have also dealt a significant blow to free trade, most commonly associated with the presidency of Donald Trump. At the same time, in 2024, U.S. President Joseph Biden introduced a 100% tariff on Chinese electric vehicles.

China, for its part, responded with multiple rounds of tariff increases on U.S. goods. The peak of tariff escalation occurred in 2019–2020, when China's increased tariffs covered more than 70% of U.S. exports to China.

Donald Trump's second presidency marked a new phase of tariff wars. This represented the most protectionist tariff increase in the United States since 1930, during the era of the Smoot–Hawley Tariff Act—an episode that effectively collapsed global trade and helped catalyse economic crises in Europe, ultimately contributing to the rise of radical regimes and the outbreak of the Second World War.

Despite the fact that these tariffs contravene WTO rules (an organisation that, after the Second World War, institutionalised U.S. economic dominance), they have effectively been accepted by the international community. Several major economies, including the United Kingdom, Japan, and South Korea, have already negotiated lower tariff levels than those threatened by the Trump administration in April 2025. The European Union has concluded a framework agreement with the United States establishing a 15% tariff on goods originating from the EU.

Donald Trump's "reciprocal tariffs" are likely to represent an irreversible trend. It is doubtful that a future U.S. administration—even one led by Democrats—would attempt to reverse a trajectory that is now underpinned by substantial fiscal revenues. According to U.S. Customs and Border Protection, between 20 January and 15 December 2025 the United States collected a record USD 200 billion in customs duties (compared to USD 77 billion in 2024), largely as a result of tariffs introduced under the Trump administration.

In response, EU leaders are increasingly speaking openly about the need for

systemic countermeasures.

German Chancellor Friedrich Merz has stated, that the WTO no longer functions and is unable to fulfil its role, and that a new system of trade policy rules must be developed. As he noted: *«Together with our European partners, including in relations with the United States, we will promote a rules-based system of free trade. At the same time, we must acknowledge that, for example, the World Trade Organization is currently not functioning and can no longer perform its original role. What is now required is creativity and a firm commitment to developing a new system of trade rules.».*

U.S. Secretary of State Marco Rubio stated during his address at the Munich Security Conference in February 2026: *«Economic security is national security. Supply chains, energy systems, critical technologies, and industrial capacity are not merely commercial matters — they are instruments of power. We are not going back to the old global trading system. The future will not be built on dependency on rivals for critical goods, strategic materials, or essential technologies. It will be built on resilience, trusted partners, and fair reciprocity. This does not mean abandoning trade. It means transforming it — toward cooperation among allies and nations that share responsibility for stability and security».*

It seems that the very concept of trade facilitation is undergoing a profound transformation. The model promoted over recent decades by the World Trade Organization—centered on simplification, procedural streamlining, reduction of administrative burden, and minimization of border controls—is increasingly giving way to a different set of priorities. In the emerging global order, facilitation is no longer an overriding value in itself. The growing emphasis on sanctions enforcement, export controls, supply-chain security, fiscal leakage prevention, and protection of strategic industries is driving a re-expansion of controls at and beyond the border, forward and backward in time. Rather than “less control,” the dominant trend is toward smarter, deeper, and more data-intensive control.

For the Ukrainian customs administration, this shift implies that facilitation becomes conditional rather than universal: speed and simplicity are earned through compliance, transparency, and integration into shared risk frameworks.

Thus, international trade is undergoing a period of transition—from a universal, WTO-based system to a landscape shaped by multiple regional or sectoral coalitions.

On the one hand, financial and technological fragmentation poses risks for both advanced and developing economies. On the other, it creates an opportunity to design a new architecture of economic coexistence that simultaneously delivers security and resilience.

Clustered globalization—characterized by trade liberalization within clusters combined with the erection of stringent barriers along their external boundaries—will require a fundamental reassessment of the role of customs administrations and an update of their functional mandates.

In particular, the importance of customs control is increasing in areas such as security, standardization, digital data exchange, sanctions enforcement, and supply-chain security, including with respect to critical goods and dual-use items.

The multi-layered and multi-contour nature of international trade will redefine customs administrations as, in effect, the primary connecting bridges between economic macro-clusters.

Against this backdrop, the role of the World Customs Organization (WCO) may also evolve. To date, the WCO has traditionally exercised a technical mandate: harmonizing customs procedures, standardizing tariff and non-tariff information, consolidating global best practices, and developing methodological guidance.

However, in the context of the WTO's crisis, the WCO could strengthen its role as a "second-tier" institution—ensuring common standards for data exchange, customs digitalization, and anti-fraud measures, and, critically, shaping formats for interaction between trade macro-clusters.

In practical terms, the WCO could emerge as an "infrastructure architect" of

international trade, while political decisions on market access would remain at the level of the WTO or regional blocs.

Accordingly, Ukraine should significantly enhance its representation within the WCO, in particular by intensifying its participation in committees and working groups.

Given the likely further standardization of data and the emergence of new inter-cluster interaction models, including security protocols, the Ukrainian customs service should proactively position itself to participate in WCO pilot initiatives and, more broadly, present Ukraine as a country capable of testing and implementing new models and the highest international standards.

# 3. Technological Transformation

*Rapid technological advancement is reshaping the contours of global trade and transforming traditional notions of goods, borders, foreign economic transactions, and established logistics routes.*

## E-commerce

The explosive growth of e-commerce conducted through global platforms (such as Amazon, AliExpress, Temu, and eBay), together with a sharp increase in the volume of small cross-border consignments, has placed additional pressure on customs administrations. This is driven by the need to administer and control these flows, including screening for the potential movement of prohibited goods.

At the same time, the trend towards lowering de minimis thresholds for small consignments—combined with a continued increase in parcel volumes (albeit at a slower growth rate)—may further intensify the burden on customs authorities due to the need to assess and collect import taxes.

During President Barack Obama’s administration, the United States raised its de minimis threshold to USD 800 in 2016, one of the highest levels globally. This significantly facilitated the import of low-value goods, particularly via e-commerce

channels. On 2 May 2025, President Donald Trump signed an executive order abolishing de minimis treatment for consignments originating from China and Hong Kong. Such shipments are now subject to a 30% tariff or a flat charge of USD 25 per item, later increased to USD 50. Subsequently, on 30 July 2025, a new executive order — "*Suspending Duty-Free De Minimis Treatment for All Countries*"—was issued, terminating de minimis treatment for all countries as of 29 August 2025. In addition, from 1 July 2027, the "One Big Beautiful Bill" will enter into force, permanently repealing the legislative basis for de minimis treatment.

Beyond platforms for parcel registration and tax administration (including the Import One Stop Shop system introduced in the European Union), customs administrations must transition towards risk-based digital systems capable of automatically tracking and analyzing large datasets relating to low-value consignments. Properly configured platforms such as IOSS effectively shift VAT administration outside the customs function: tax is paid at the point of sale and administered by tax authorities, while the role of customs is limited to verifying the validity of the IOSS identifier and compliance of the consignment with the relevant regime.

This approach allows customs authorities to concentrate their resources on security-related task risk management, detection of smuggling flows, control over the movement of dual-use goods and critical technologies (including semiconductors), and the enforcement of sanctions regimes, including those targeting sanctioned countries.

## 3D printing

The development of additive manufacturing and the widespread adoption of 3D printing technologies are creating qualitatively new risks for customs administrations, driven by the gradual erosion of the traditional object of customs control—the physical product as such.

Under this model, international exchange increasingly occurs not through the physical cross-border movement of goods, but through the transnational transfer of digital design files, software, and production parameters. The physical production of goods is then carried out directly in the country of consumption.

This shift undermines the traditional logic of customs control and significantly complicates the application of existing enforcement tools.

Risks related to dual-use goods and critical technologies become particularly acute. Digital files for 3D printing may contain design solutions and technical specifications for components with military, aerospace, energy, or other strategic applications. The transfer of such files does not always formally fall within the scope of traditional export control mechanisms.

Similarly, enforcement of intellectual property rights becomes more complex, as counterfeit goods can be manufactured locally without importing finished products, depriving customs authorities of the ability to apply conventional border measures for the protection of intellectual property.

As a result, the primary risk object increasingly shifts away from physical goods toward intangible assets—digital files, software modules, printing algorithms, material specifications, and production capabilities themselves. At the same time, logistics chains are shortening and fragmenting, reducing transparency and limiting the effectiveness of classical risk-management models based on the monitoring of goods flows.

Under these conditions, the functional mandate of customs administrations will objectively require transformation. This includes a gradual shift from exclusive control over physical consignments towards broader oversight of technologies, data, and production capabilities. The role of customs will increasingly move towards risk analysis at the level of economic operators, supply chains, and access to critical technologies, rather than focusing solely on individual trade transactions.

## Generative models

The widespread availability of generative AI models significantly lowers the entry barrier to customs fraud.  Contemporary tools make it possible to produce, at scale, convincingly formatted forged invoices, payment documents, commercial and transport documents, certificates of origin, official letterheads, and signatures that formally comply with regulatory requirements and are difficult to detect through traditional documentary controls.

Such documents can be easily adapted to specific jurisdictions, languages, and

corporate templates, increasing the scalability of schemes involving customs value understatement, manipulation of origin, sanctions evasion, and the laundering of illicit proceeds.

A particularly serious threat lies in the growing internal consistency of AI-generated documentation. Financial details, routes, dates, commodity codes, and contractual terms increasingly corroborate one another, transforming individual forgeries into coherent digital “packages” designed to legitimize illicit trade flows. This substantially undermines the effectiveness of manual checks and formal compliance-based controls.

At the same time, artificial intelligence and machine learning itself can become a key instrument for mitigating these risks. According to the World Customs Organization, AI enables a shift from the verification of individual documents to the analysis of large datasets, allowing authorities to identify anomalies, hidden linkages, and behavioral patterns characteristic of smuggling networks, cross-border crime, and money laundering.

Machine-learning algorithms also provide a foundation for the development of macro-analytics in customs administrations supporting trade-flow forecasting, assessment of regulatory effectiveness, and enhanced risk management. This includes, in particular, improved control of customs valuation through the comparison of declared prices with global market benchmarks and historical data.

In sum, artificial intelligence is becoming a driver of structural transformation in customs operations. The central challenge for customs administrations is the need to simultaneously counter the use of AI in fraudulent schemes while integrating their own AI-based solutions into control systems, risk analysis, and strategic planning frameworks.

To fully capture the benefits of the AI revolution, customs administrations must move beyond fragmented and siloed data landscapes. Artificial intelligence cannot deliver meaningful results when information on movements of goods, financial transactions, controls, human resources, infringements, and enforcement outcomes remain dispersed across disconnected systems and institutional boundaries.

Instead, customs will require consolidated, integrated, and interoperable data

environments—where transactional, financial, operational, and compliance-related data are brought together in a single analytical ecosystem and linked across sources. Only such interconnected data architecture enables AI systems to detect patterns, correlations, and risks that are invisible within isolated datasets.

In this sense, the strategic advantage of AI in customs does not lie in automation alone, but in its capacity to provide a genuinely new level of situational awareness—to allow customs administrations to *see what others cannot see, and, crucially, what is deliberately hidden.*

## Proliferation of Alternative Currencies

In the traditional "physical" trade environment, customs control over foreign economic transactions is closely linked to foreign exchange control. Banking and payment documents serve as a primary source of information on the basis of which customs authorities make operational and enforcement decisions. In parallel, authorized banks monitor the repatriation of export proceeds based on evidence of the import or export of goods, as confirmed by customs documentation. In this model, the movement of goods and the movement of funds are embedded within a single, integrated control framework.

For this reason, close cooperation between customs administrations and financial and banking regulators, financial intelligence units, and law enforcement agencies is essential for the effective oversight of cross-border trade, particularly in the context of anti–money laundering and counter-terrorist financing (AML/CFT).

At the same time, the growing use of cryptocurrencies—and the possibility of settling trade transactions in digital assets, including in cross-border operations—fundamentally alter established approaches to controlling the movement of goods and the currencies used for settlement.

Payments in stablecoins and other digital assets can take place outside the traditional banking system, reducing the transparency of the financial dimension of foreign trade transactions for customs authorities and complicating the detection of high-risk or fraudulent schemes, including trade-based money laundering.

The adoption in 2025 by the U.S. Congress of the so-called GENIUS Act, which for the first time established a global-level legal framework for the use of

stablecoins, has set in motion a broader trend toward the regulation and supervision of cryptocurrency-based financial transactions, including in international trade.

For customs administrations, this implies a further expansion of responsibility for identifying and analyzing atypical or opaque settlement mechanisms—particularly those involving cryptocurrencies—as potential risk indicators.

At the same time, the introduction of CBDCs (Central Bank Digital Currencies) will require adjustments to the legal framework, enhanced customs capabilities at the intersection of trade and financial data, and even closer cooperation with financial intelligence units and law enforcement authorities.

In particular, the European Central Bank has completed the preparatory phase for the digital euro and is moving toward its legislative formalization, which is expected in 2026, followed by pilot implementation in 2027.

For customs authorities, the introduction of the digital euro is of systemic importance, as it establishes a unified, programmable payment environment that integrates customs into the broader EU financial-digital infrastructure, where control progressively shifts from the physical border to data and transactions.

Innovation and technological change are fundamentally reshaping the environment in which customs administrations operate worldwide. Increasingly, customs authorities are compelled to shift their focus away from physical inspection towards more sophisticated management of digital data flows.

The virtualization of the concept of a “good,” the rapid development of large language models, and the emergence of new forms of international payments will require customs administrations to rethink their operating models—moving towards intelligence-led control, deep digitalization and automation of risk analysis, and closer integration with financial regulators.

# 4. Geopolitical Transformation

*Russia's full-scale invasion of Ukraine has not only resulted in devastating destruction, the loss of hundreds of thousands of lives, a severe erosion of Ukraine's economic potential, and an increased burden on its international partners; it has also set in motion a profound transformation of the entire system of international relations that emerged after 1945.*

*The war in Ukraine, alongside other active conflict zones worldwide and the growing level of geopolitical instability, is forcing a fundamental reassessment of the place and role of customs administrations in the domains of security, defense, and international cooperation.*

Speaking at the European Union Institute for Security Studies (EUISS), the EU High Representative for Foreign Affairs and Security Policy, Kaja Kallas, stated:

"Europe has launched the largest military project in its modern history. From now until 2031, an additional two trillion euros will be allocated to defence spending."

## Export controls – and the import side dimension

In contemporary conditions, a significant share of goods and technologies are dual-use in nature, serving both civilian and military purposes. Export controls are therefore becoming a critical instrument for preventing the leakage of strategically sensitive goods and technologies to aggressor states and their allies.

At the same time, this logic increasingly extends beyond export flows and into the import side of customs control. Even goods that are not subject to strict export controls in their country of origin may, once imported, be locally assembled, modified, or combined into highly dangerous products. The proliferation of commercially available components, combined with additive manufacturing technologies, enables the local production of explosive devices, weaponized FPV drones, and other military-grade systems from inputs that appear benign when assessed individually. This significantly complicates traditional control models focused on finished products and underscores the need for risk analysis at the level of components, end-use, and production capabilities rather than declared purpose alone.

In addition, customs administrations will play a key role in enabling the so-called

“Military Schengen”—a framework designed to ensure the rapid movement of troops and military equipment across national borders without delays or excessive administrative procedures. This system primarily concerns European NATO member states and their partners, including Ukraine.

To fulfil this role, customs authorities will need to adapt their procedures to ensure priority, transparent, and accelerated clearance of military consignments. This, in turn, raises a critical issue of access to authorised and classified information. To enable accelerated and secure clearance of military consignments, customs administrations must have timely access to sensitive data related to end users, cargo specifications, transport routes, and security clearances. At present, such information is often stored in outdated formats—across isolated databases, on physically unnetworked computers, or within narrowly compartmentalised institutional silos.

While these arrangements were historically designed to minimise security risks, they are increasingly incompatible with the requirements of speed, interoperability, and situational awareness inherent to modern defence logistics. In the context of the “Military Schengen,” maintaining security can no longer rely on fragmentation alone. Instead, it will require the development of secure, interoperable, and access-controlled digital environments that allow authorised customs officials to work with classified and restricted information in real time, without undermining operational tempo or security guarantees.

## Realignment of Supply Chains

Russia’s full-scale invasion has led to the closure of border crossing points, the disruption of traditional logistics routes, and the loss of a significant share of Ukraine’s transit potential.

Data on border crossing points illustrate the scale of wartime disruption. More than half of all road border crossings (55.8%) are no longer operational, while 47.4% of railway border crossing points are also closed. At the same time, several of the crossings that remain open are operating at over 90% of their designed capacity, creating severe congestion and systemic bottlenecks.

Maritime and air transport have been affected most severely. Approximately

74.2% of maritime border crossing points and 100% of air border crossing points are non-operational, reflecting a profound loss of access to sea and air trade routes.

River border crossing points are completely closed, while ferry connections are operating at only 50% capacity.

The continuation of hostilities and the loss of control over certain regions will continue to affect business activity and, consequently, trade volumes and customs performance in certain regions.

Even after the restoration of Ukraine's territorial integrity, the northern and eastern borders are unlikely to resume normal operations until the regional security architecture is fully reconfigured.

As a result, Poland, Slovakia, Romania, and Hungary have emerged as the new key transit gateways for Ukraine. This shift requires both a significant expansion of throughput capacity and the synchronization of customs and border procedures with these neighboring states.

At the same time, this configuration should be understood as largely **transitional**. In the context of Ukraine's prospective accession to the European Union, western border crossing points are likely to progressively lose their function as full-scale customs checkpoints, as customs controls move to the external border of the EU. Historical trade patterns from the period 2014–2020 further indicate that maritime and air transport were steadily increasing their share in Ukraine's external trade. Once hostilities cease and access to airspace and seaports is fully restored, these modes are highly likely to regain their strategic importance, reshaping trade flows and, consequently, the geographic distribution of customs workload.

Russia's full-scale invasion has significantly reduced the export potential not only of Ukraine, but also of the Russian Federation itself—particularly with regard to participation in the *Belt and Road Initiative*. As a result, the international community has been compelled to seek alternative logistics routes, most notably the *Middle Corridor* (the Trans-Caspian International Transport Route, TITR), which connects China, Central Asia, the Caspian Sea, the Caucasus, the Black Sea, and the European Union while bypassing Russian territory and relying on multimodal transport solutions.

The Middle Corridor will require the harmonization and simplification of customs procedures, the establishment of unified digital platforms for transit clearance, and the organization of physical customs control based on a “minimal border” model. Under this approach, in-depth control procedures are shifted away from border crossings to inland multimodal logistics hubs and dry ports located along the route.

The Samarkand Summit held on 3–4 April 2025 marked the launch of a new strategic partnership between the European Union and Central Asian countries, accompanied by a joint investment package under the *Global Gateway* programme. This initiative envisages the development of high-quality, integrated transport infrastructure—including transport networks, ports, railways, logistics platforms, and multimodal systems—which by definition must operate in close coordination with customs administrations.

Taken together, these shifts will require a fundamental rethinking of customs infrastructure and operational models. The growing role of multimodal transport—particularly the anticipated resurgence of maritime and air freight—demands a reassessment of where customs facilities are located, how they are configured, and what functions they are expected to perform. Traditional, border-centric infrastructure models are increasingly misaligned with a trade environment shaped by logistics hubs, dry ports, ports, airports, and inland multimodal terminals.

These transformations will also have profound implications for the customs workforce. Certain regions may require a significantly reduced customs presence—most notably along the western border following EU accession—while others will demand a qualitatively different, more security-oriented and militarized mode of operation, particularly along the northern and eastern borders or potential demarcation lines.

As a result, customs administrations will need to become markedly more mobile and adaptive, both in terms of infrastructure and human capital. This entails flexible deployment of personnel, modular and relocatable inspection facilities, and a workforce trained to operate across varying contexts—from high-volume trade facilitation environments to security-intensive border zones. Mobility, flexibility, and rapid redeployment will thus become core attributes of an effective customs service in the post-war and EU-integrated logistics landscape.

Under conditions shaped, on the one hand, by the clustering of global trade—characterized by the blurring of borders within clusters and the erection of rigid protective barriers externally—and, on the other, by the emergence of military corridors and strategic logistics, customs administrations are becoming an integral component of national, regional, and global security systems.

At present, three hypothetical scenarios can be envisaged:

1. a ceasefire, restoration of air connectivity, and secure maritime navigation through seaports located in territories under government control;
2. the continuation of hostilities at a low level of kinetic intensity, partial restoration of air connectivity, and secure maritime navigation through seaports located in territories under government control;
3. the continuation of full-scale war with closed airspace and partially restricted maritime navigation.

Among these, Scenario 2 appears to be a moderately optimistic baseline.

Regardless of which scenario materializes, it will be vital for Ukraine to integrate as rapidly as possible into the "*Military Schengen*," EU and U.S. digital transit networks, and export control regimes. Such integration would enable Ukraine to position itself as a key partner within the emerging European and global security architecture.

For the Ukrainian customs service, this implies a decisive shift away from a predominantly fiscal function toward a role as a critical element of security infrastructure—anchored in digital systems, intelligence-led risk management, and robust export control capabilities.

# 5. EU Accession

## Revenue Transformation

Upon Ukraine's accession to the European Union, customs duties will cease to constitute national revenue and will instead become part of the EU's so-called **Traditional Own Resources**. As a Member State, Ukraine will retain 25% of the amounts collected as compensation for administrative costs, while the remaining 75% will be transferred to the EU budget.

EU accession will also entail the termination of all bilateral free trade agreements and a transition to the EU's common trade regimes. This shift will alter both the geographical and commodity structure of Ukraine's trade and, consequently, the composition of customs revenues.

As a result, the share of customs duties collected for the Ukrainian state budget on imports from third countries will decline sharply. Moreover, import value-added tax on goods originating in the EU will fall entirely outside the remit of customs administration. In 2024, 50.4% of Ukraine's imports originated from EU countries; accordingly, the volume of VAT previously administered on EU imports can be estimated at approximately EUR 7 billion. This will significantly reduce the role of customs as a source of national budget revenue, while its role in contributing to the EU budget will increase correspondingly.

An additional challenge for customs administrations will arise from the implementation of the **Carbon Border Adjustment Mechanism (CBAM)**. Like customs duties, CBAM revenues are distributed according to a 75% allocation to the EU budget and 25% retained nationally as compensation for administrative costs. This will impose an additional control and compliance burden on customs authorities, while the bulk of the fiscal outcome accrues to the EU budget.

At the same time, the EU's single customs territory will create a "goods flow" effect: importers will increasingly choose entry points in Member States where customs procedures are more efficient and administrative systems more transparent. In this context, the competitiveness of customs services becomes not merely a technical issue but an economic one — goods will be routed through

jurisdictions where clearance is easier, faster, and more cost-effective.

For Ukraine, this implies a clear need to modernize customs services and optimize customs infrastructure in order to remain an attractive entry point to the EU market. Failing this, Ukraine risks losing its 25% share of customs revenues to other Member States that offer more favorable conditions for import clearance.

Overall, European integration will fundamentally transform both the structure of customs revenues and the fiscal role of the customs service. This role will shift institutionally from a framework centered exclusively on domestic budgetary relations to one embedded in fiscal relations between Kyiv and Brussels.

## Customs Gap

The Customs Gap is defined by the European Parliament s the difference between the theoretical level of import duties that should be collected across the economy and the import duties actually collected in practice.

Within the EU, the Customs Gap manifests itself through foregone customs revenues, manipulation of customs value, abuse of transit procedures, and limited capacity for effective inter-agency control. One of the key components of the Customs Gap highlighted by the European Parliament is inadequate control over small consignments with a value not exceeding EUR 150.

In EU Member States, this category has become a major source of fraud, including non-declaration, undervaluation, incomplete or incorrect commodity classification, and the large-scale use of low-value consignments to evade customs duties. A substantial share of such goods enters the EU in violation of safety requirements, quality standards, or with heightened risks of intellectual property rights infringement.

In the Ukrainian context, this problem is compounded by the risk of implementing outdated regulatory and administrative approaches that lack sufficient institutional capacity and technological compatibility with the emerging European model for administering low-value consignments.

In the context of EU integration, international practice in disputes related to customs revenue shortfalls is also highly relevant. In *Commission v United Kingdom* (Case C-213/19), the Court of Justice of the European Union confirmed

that the United Kingdom had failed to ensure proper control and collection of customs duties on imports of Chinese textiles and footwear amounting to approximately EUR 2.7 billion. This failure resulted in losses to the EU's own resources and obliged the United Kingdom to make corresponding payments to the EU budget.

In Ukraine, disputes over the determination of customs value constitute one of the largest categories of customs-related litigation. More than 90% of such cases—both in terms of volume and the amounts in dispute—are decided against customs authorities.

These trends create serious risks for the administration of the EU's own resources, as under the standard allocation model a significant share of disputed amounts may later be refunded to traders. This calls into question the ability of the Ukrainian customs service to effectively protect the financial interests of both Ukraine and the European Union.

Accordingly, traditional approaches to customs valuation control will require a fundamental overhaul, with a shift toward a more robust risk-based model. This includes differentiated treatment of low-risk foreign trade operations combined with the expanded use of post-clearance audit mechanisms.

Following accession to the EU, a key task for Ukraine—and for customs as a security-oriented institution—will be not only the formal harmonization of legislation, but also the **actual reduction of the Customs Gap**. This will require strengthening institutional capacity, ensuring digital interoperability with EU systems, and developing joint analytical platforms capable of supporting effective, intelligence-led customs control.

## VAT Gap

One of the systemic challenges facing the European Union remains the so-called **VAT Gap**—the difference between the theoretical amount of value-added tax that should be collected and the amounts actually received.

According to the European Commission, EU Member States lost approximately **EUR 61 billion** in potential VAT revenues in 2021. A substantial share of these losses is attributable to fraud, tax evasion, and deficiencies in VAT administration.

Analysis of the "*VAT Gap in the EU*" reports shows that the highest levels of VAT shortfalls are consistently observed in countries that joined the EU after 2004. In 2022, Romania recorded a VAT compliance gap of 30.6%, Malta 25.9%, and Lithuania and Slovakia 14.6%, whereas in older Member States—such as the Netherlands, Germany, or Sweden—the gap typically ranges between 2% and 5%. This divergence is largely explained by weaker administrative capacity, higher levels of economic informality, and slower integration of electronic data-exchange systems in newer Member States.

Following Ukraine's accession to the European Union, it will become a full participant in the single internal market, within which intra-EU supplies are exempt from VAT. While economically beneficial, this regime objectively increases the risk of Ukraine being exploited in cross-border **"carousel" schemes** (*Missing Trader Intra-Community fraud*), whereby goods imported from third countries or initially placed on the market are channeled through jurisdictions with less effective customs and tax controls.

In this context, customs administrations play a critical role as the **first line of defense for the EU's VAT system.** Any systemic weaknesses in customs controls will therefore be viewed by the EU as a financial risk to the integrity of the entire internal market.

Moreover, without systematic operational integration and real-time data exchange between customs and tax authorities — particularly in the application of **Procedure 42** — effective prevention of cross-border VAT fraud schemes is not feasible.

## Reprofiling of Organized Crime

Following Ukraine's accession to the European Union, traditional goods smuggling will largely lose its economic rationale. This dynamic is directly linked to smuggling schemes that have historically depended on the existence of a customs and regulatory border between Ukraine and the European Union. On the one hand, this included the smuggling of excisable goods—most notably cigarettes—from Ukraine into the EU. On the other, it involved the illicit movement of goods from the EU into Ukraine, concealed from customs control to evade duties, taxes, or regulatory requirements. With Ukraine's accession to the EU, these border-based

arbitrage opportunities will largely disappear, depriving such schemes of their underlying economic logic.

At the same time, the prolonged restriction of trade flows across the northern and eastern borders—due to security considerations and the reconfiguration of the regional security architecture—will further constrain traditional smuggling routes. As a result, organized criminal groups will be forced to realign their logistics, methods, and geographic focus. This increases the likelihood that existing criminal infrastructure will be redirected toward activities that are less dependent on classical border arbitrage, but more closely linked to organized crime, high-risk goods, and complex financial fraud.

The experience of Eastern European countries that have integrated into the European Union demonstrates a clear pattern. Classical commercial smuggling (cigarettes, alcohol, and other consumer goods) gradually lost its financial attractiveness as internal customs barriers were removed.

As a result, certain organized criminal groups adapted by shifting their activities toward the trafficking of more heavily restricted or higher-margin goods—most notably drugs and weapons—or toward complex illicit financial schemes.

Romania’s experience, in particular, illustrates such a reorientation toward more serious forms of criminal activity, including human trafficking.

## Transformation of Borders

Following Ukraine’s accession to the European Union, but prior to its entry into the Schengen Area, border crossing points along the borders with EU Member States will cease to function as customs posts. At the same time, personal border control will remain in place and will continue to be carried out by the State Border Guard Service of Ukraine.

As a result, border crossing infrastructure designed to handle large volumes of cargo will become largely redundant. Decisions on the future use of this infrastructure will need to be addressed through a dedicated programme for the conversion and repurposing of border crossing points.

At the same time, a redistribution of law enforcement functions at the border will take place. Customs authorities will lose their powers to physically control goods

at the EU's internal borders. Instead, the initial detection of cases involving the movement of weapons, narcotics, cultural property, or other prohibited items during this transitional period will fall within the competence of the border guard service. Such acts, however, will no longer be classified as smuggling, but rather as violations of circulation rules for prohibited items under national criminal law and relevant EU directives.

The prospect of EU membership, combined with prolonged geopolitical challenges, will require a high degree of infrastructural mobility.

Under these conditions, the customs service must proactively prepare for a shift from a predominantly stationary model of operation to a more mobile one. This includes the development of mobile and/or remote customs units, deployable inspection facilities, mobile control points, and other flexible operational formats that move beyond the classical model of permanent presence limited to border crossing points and points of arrival.

## E-commerce and Postal/Express Shipments

In 2021 — the year preceding the full-scale invasion—Ukraine imported nearly 69 million "below-threshold" international postal and express consignments, i.e. shipments not subject to taxation, with a total declared value of EUR 876.3 million. The average value of a single international consignment was EUR 12.7.

The introduction of a One-Stop-Shop (OSS) / Import One Stop Shop (IOSS)–type system — under which all imported goods, regardless of value, are subject to VAT in the country of destination via a single electronic portal — is now driven not only by European integration objectives, but also by Ukraine's commitments under cooperation programmes with the International Monetary Fund (IMF).

At the same time, in view of Ukraine's prospective accession to the European Union, the OSS/IOSS framework must be designed as closely as possible to the European model. This implies full digitalization, deep integration with EU customs and tax IT systems, and a predominantly risk-based control model. Properly implemented, such a system shifts VAT administration away from customs clearance at the border: VAT is collected at the point of sale and administered by tax authorities, while customs focuses on verifying the validity of OSS/IOSS identifiers and compliance with the applicable regime.

The introduction of OSS is likely to reduce the overall volume of very low-value consignments, as the combined tax burden and administrative costs will increasingly outweigh the economic rationale for ordering inexpensive items. Nevertheless, the absolute number of postal and express shipments will remain high, and their risk profile will evolve rather than disappear.

In practical terms, the transition to a European-style OSS/IOSS system will require:

- the establishment of a national OSS portal fully compatible with the EU VAT OSS/IOSS;
- integration with postal operators and online marketplaces for real-time exchange of structured, pre-arrival data;
- the development of a dedicated risk engine for e-commerce, including automated goods classification and anomaly detection;
- legislative designation of online marketplaces as tax agents, with corresponding liability for VAT collection and data accuracy.

At the same time, the architecture of OSS/IOSS in Ukraine must explicitly account for wartime and hybrid risks. Postal and express channels may be used to circumvent sanctions regimes or to move goods and components sensitive from a security perspective, including dual-use items.

This, in turn, necessitates a stronger reliance on non - intrusive inspection methods. Control of high-volume e-commerce flows cannot be based primarily on physical inspection. Instead, customs will increasingly depend on advanced technologies — not only X-ray and CT scanners, but also spectroscopy, chemical and material analysis tools, and automated detection systems capable of identifying concealed or misdeclared goods without disrupting logistics chains.

Such an approach implies substantial investment in technology, alongside a corresponding investment in human capital. Operating and interpreting data from sophisticated inspection and analytical equipment requires a workforce with advanced technical and analytical skills. As a result, the evolution of e-commerce controls reinforces the need for a technologically proficient, intelligence-driven customs administration capable of managing security, compliance, and facilitation objectives simultaneously.

## Institutional transformation

Following accession to the European Union, Ukraine must be fully and substantively integrated into the European institutional ecosystem. This ecosystem spans customs, border management, police and criminal cooperation, export controls, protection of external borders, financial monitoring, regulation of digital markets, data protection, environmental oversight, transport security, and risk management across supply chains.

Importantly, this integration will take place at a moment when the European Union itself is undergoing a profound transformation of its customs framework. A comprehensive revision of the Union Customs Code (UCC) is currently underway, alongside the establishment of a new EU Customs Authority and the planned deployment of a European Digital Customs Hub, which is conceived as a supranational infrastructure for the centralized collection, processing, and analysis of customs data.

The introduction of the Data Hub implies a shift from fragmented national IT systems to a common data governance model, which, in turn, entails a redistribution of analytical and control functions between national customs administrations and the institutions of the European Union.

The use of information and communication technologies should primarily be regarded as a key element of the institutional integration of customs authorities into a common customs territory.

Accordingly, it is essential to establish an appropriate legal framework that mandates the electronic form for all customs and trade operations and ensures equal access of economic operators to customs information and communication systems.

This concerns not merely the technical capacity for data exchange, but the legal recognition of electronic processes as the sole standard for the performance of customs formalities within an integrated customs area.

This means that Ukraine will not be integrating into a static system, but into a rapidly evolving regulatory, institutional, and technological environment. Consequently, Ukrainian customs will need to advance at an accelerated pace—

not only to align with existing EU requirements, but to remain synchronized with reforms that are still in development. Delayed or partial alignment would risk immediate obsolescence upon accession.

At the same time, EU enlargement is not merely a process of absorbing new Member States; it is also a mechanism for enriching the Union with new economies, capabilities, and solutions.

Ukraine possesses a number of practical solutions that in certain respects already surpass existing European analogues. A prominent example is the Single Window for Foreign Economic Activity, which—by virtue of its depth of inter-agency integration and level of automation—exceeds many current EU systems.

Formally, accession to the EU could imply pressure to “downgrade” such solutions in order to fit existing European standards, creating a risk of institutional loss of quality. At the same time, this situation presents a unique window of opportunity.

A telling example of the above can already be observed in Ukraine’s recent regulatory practice. In 2023, Ukraine abolished the possibility of pre-lodging customs declarations before goods entered the customs territory, arguing that this mechanism was not compatible with EU customs rules. As a result, an instrument that enhanced predictability, risk analysis, and operational efficiency was removed in the name of formal alignment.

Paradoxically, following the EU’s transition to the EU CDM and the broader reform of the Union Customs Code, the very same concept—early or pre-arrival declarations—is now explicitly promoted as one of the key improvements of the new EU customs system. Pre-lodgement is positioned as a cornerstone of data-driven, risk-based control, enabling earlier risk assessment, better targeting, and smoother logistics flows.

Ukraine should not position itself as a passive recipient of EU rules alone, but as an active contributor—capable of offering its own digital solutions, operational innovations, and modernization practices within a Union that is itself redefining the future of customs governance.

## GDPR cyber resilience

Ukraine's European integration in the customs sphere entails not only technical interoperability of information systems, but also full compliance with the EU General Data Protection Regulation (GDPR) and the NIS2 Directive on the cyber resilience of critical information infrastructures.

Customs IT systems, which process large volumes of personal and commercial data—including customs declarations, risk profiles, and information on the movement of goods and persons—are among the most sensitive components of the state's digital ecosystem.

Key requirements in this area include the implementation of Data Protection by Design and by Default, the appointment of a Data Protection Officer (DPO), the conduct of Data Protection Impact Assessments (DPIAs), comprehensive risk management and incident response mechanisms, systematic auditing of service providers and vendors, and the assurance of operational continuity and system resilience.

## Accelerated Integration

A mismatch between political momentum and institutional capacity creates significant risks for the quality of acquis implementation. The European Union is adopting decisions at a pace that often exceeds the ability of Ukrainian public institutions to fully analyze, adapt, and operationalize them. As a result, reforms risk becoming fragmented, uneven, and incomplete.

In particular, the EU is preparing a comprehensive overhaul of the Customs Union under the European Customs Reform (2028–2032). This reform envisages the establishment of an EU Customs Authority, joint data processing, new requirements for risk modelling, and a transition towards a Customs Data Hub model.

Against this backdrop, Ukraine is currently implementing customs procedures largely aligned with the 2016–2019 generation of EU rules and practices.

A similar gap is evident in the area of e-commerce taxation. Ukraine is moving to implement the OSS/IOSS model for the administration of import taxes on e-commerce, while the EU itself is undertaking a fundamental reform under

the VAT in the Digital Age initiative from 2027 onward. This reform includes the introduction of Single VAT Registration, the abolition of de minimis thresholds, and other structural changes.

As a result, Ukraine faces a real risk of investing significant resources in systems and solutions that may already be outdated by the time they become fully operational, failing to meet the EU's next-generation standards.

Additional challenges stem from regulatory overload, where a large number of directives and regulations are transposed simultaneously, often without sufficient assessment of their interaction with existing legislation. This leads to legal inconsistencies, increased administrative complexity, and growing compliance burdens for both the state and businesses.

A full implementation cycle—from planning and transposition to operational rollout and ex post audit—requires concentrated organizational, financial, and expert resources. In particular, it demands the availability of highly qualified specialists capable of managing complex, interdependent reforms.

Against this background, risks for business are also increasing. Transitioning to EU standards requires substantial investment in processes, compliance systems, and digital solutions, creating high entry barriers—especially for small and medium-sized enterprises.

Finally, the accumulation of unfinished reforms represents a serious systemic threat. Accelerated adaptation is often not accompanied by the achievement of operational maturity, increasing the likelihood of structural failures in critical sectors after accession to the European Union.

## «Eurointegration Fatigue»

The political "window of opportunity" for advancing European integration may gradually narrow, as consensus within the EU is not static. Changes of government, the rise of right-wing populist and Eurosceptic forces, and internal crises can reduce the priority of the Ukrainian agenda in Brussels.

This is compounded by saturation of the EU policy agenda: migration pressures, defense commitments, energy stability, and internal institutional reforms may push the issue of enlargement to the periphery of political attention.

Under these conditions, the pace of domestic reforms in Ukraine becomes particularly critical. Any slowdown in areas such as the rule of law, anti-corruption policy, competition, customs administration, or public governance may delay the opening or closing of negotiation clusters.

A further challenge may arise from the accumulation of “reform fatigue”—both within public institutions and in society at large—especially against the backdrop of a prolonged war and sustained economic pressure. At the same time, Ukraine faces competition from other candidate countries: Western Balkan states or Moldova may accelerate their own progress, diminishing the perceived uniqueness of the Ukrainian case in the eyes of the EU.

Moreover, any delays, regression, or scandals in areas such as anti-corruption efforts, judicial independence, or the governance of state-owned enterprises may be used as formal grounds to slow down the negotiation process and reduce the level of strategic support.

## Assistance Reduction

Ukraine’s dependence on external financing remains critically high, and its medium-term fiscal sustainability is effectively anchored to MFA+ programmes, support from G7 countries, and ongoing cooperation with the International Monetary Fund (IMF).

Against this backdrop, the risk of gradual “donor fatigue” and political volatility is increasing. Changes of government in the EU and the United States, competition for limited resources among priorities such as migration, energy security, and defense, as well as domestic political cycles, may lead to a reassessment of both the volume and conditions of external support.

At the same time, a transformation in the structure of assistance is likely—from non-repayable grants toward loans with stricter conditionality—inevitably increasing the state’s debt burden.

Expectations of stronger conditionality are also rising. The EU and the IMF may further tighten requirements related to structural reforms, fiscal discipline, and anti-corruption measures as prerequisites for continued financing.

Under such conditions, the risk of temporary disruptions in the inflow of external

resources increases. Delays in disbursements may create cash-flow gaps and complicate the fulfilment of key state obligations—from financing defense needs to paying pensions and wages in critical public sectors.

A reduction in macro-financial assistance could therefore have a direct impact on Ukraine's ability to sustain adequate defense programmes, finance recovery and reconstruction projects, and maintain stable social spending during the transition period—thereby increasing overall risks to the country's economic and institutional stability.

## 6. The Internal Factor

*While the external challenges described above would test even the most capable administrations, their impact on Ukrainian customs is magnified by a set of long-standing internal structural weaknesses.*

The Ukrainian customs system, remains largely organized around fragmented processes, siloed functions, and sequential decision-making, designed for a simpler trade environment. As complexity increases, the system compensates not through scalable mechanisms (automation, end-to-end workflows, shared data models), but through ad hoc human intervention.

This creates an inherent capacity ceiling: beyond a certain level of regulatory and operational density, the institution can no longer deliver consistent outcomes, regardless of individual effort or intent.

Another recurring risk is procedural transposition without operational redesign. Rules are adopted faster than institutions are re-engineered to execute them.

As a result, customs increasingly operates in a hybrid mode:

- EU-aligned procedures coexist with legacy practices;
- digital tools are layered onto unchanged processes;
- risk management exists formally, but decision logic remains fragmented.

As trade volumes, e-commerce flows, and security requirements expand, human-centered (discretion-based) control models stop being a safeguard and become a bottleneck. Even well-trained officials cannot simultaneously:

- process high volumes of declarations;
- assess complex risk profiles;
- ensure fiscal accuracy;
- and enforce security restrictions without strong system-level support.

In addition, a customs service built around fixed infrastructure, static staffing models, and rigid hierarchies adapts slowly. When change accelerates, the system does not fail spectacularly; it degrades quietly — through backlogs, selective enforcement, informal prioritization, and declining trust.This form of failure is particularly dangerous because it may coexist with nominal compliance and acceptable headline indicators, masking deeper institutional erosion.

The current design of the Ukrainian customs administration is poorly matched to the environment in which it is now required to operate. As external complexity accelerates, institutional capacity does not scale accordingly, creating a growing gap between formal alignment and real-world performance. As a result, the risk is not merely that reform may stall, but that failure becomes the default outcome unless the underlying operating model is fundamentally changed.

The internal challenge facing Ukrainian customs is therefore not reducible to individual behavior or isolated governance flaws. It is a design problem.

Without a transition toward:

- system-driven decision-making;
- integrated data architectures;
- flexible infrastructure and workforce models.

The accumulation of external pressures described in this Report will overwhelm the institution.

What is required is not another set of isolated reforms, but a strategic compass — a coherent framework that defines where the customs service is heading, which functions are core, which capacities must be built first, and which legacy models must be abandoned. This guide must align institutional design, digital transformation, infrastructure planning, and workforce development into a single trajectory, rather than allowing each to evolve independently.