

## Key updates of the month



**The value-added tax (VAT) and customs duty exemption for imports of drones, thermal imagers, night vision devices, anti-drone guns and other equipment to protect against Russian aggression been extended for a year**

The laws (amendments to the Tax Code [No. 4143-IX](#) and the Customs Code [No. 4144-IX](#)) adopted on Dec. 17 extend the benefits that were in force until Dec. 31, 2024, as well as extend the preferential treatment to components for the manufacture of ammunition and expand the list of components that can be imported on preferential terms by drone manufacturers.

**Additionally, the same laws postpone the introduction of Euro 6 environmental standards for buses and trucks for two years.**

This means that these and some other vehicles will continue to be manufactured and imported in accordance with Euro 5 standards.

This solution will potentially help reduce costs for Ukrainian manufacturers and contribute to meeting the army's vehicle needs.

Concurrently, the changes do not apply to new passenger vehicles, which must comply with Euro 6 standards as of Jan. 1.

Both laws came into force on Dec. 30, 2024 after being signed by the Ukrainian president and was published.



## **The Cabinet of Ministers introduced the post of Government Commissioner for Customs Reform.**

Ihor Smelyansky, the CEO of state-owned postal service Ukrposhta, has been appointed as the new Commissioner (he retains his current position at the state-owned enterprise).

On Dec. 3, the Interagency Working Group on Customs Reform was established also. The group includes government officials, members of parliament's relevant committee, and representatives of international technical assistance projects.



## **The Cabinet of Ministers has extended the Electronic Queue experiment, which was due to expire on Dec. 31, 2024, for two years.**

In the new decree, the government has extended the experiment to cars. From now on, drivers of passenger cars travelling outside Ukraine will also be able to book a place in the exit line for free using this electronic system or the Unified State Web Portal of Electronic Services.



## **In December 2024, safeguards against the black grain export plan were put into place.**

On Dec. 1, the export security system for exports of certain types of agricultural products, including grain, which was adopted by the Verkhovna Rada in May 2024 (amendments to the Tax Code No. 3706-IX and the Customs Code No. 3707-IX), came into force.

From now on, goods subject to these laws can be exported from Ukraine only under the following conditions (in case of non-compliance, the Customs Service will have the right to refuse clearance):

- the export is carried out by a registered VAT payer;
- the tax invoice for the consignment of goods is pre-arranged prior to customs clearance;
- the invoice price of the goods cannot be lower than the minimum allowable prices set by the Ministry of Agrarian Policy.

The laws also define the procedure for exchanging information between the tax and customs authorities and the reporting procedure for taxpayers.

## European integration

**In November, the Ukrainian Customs Service did not show any significant progress towards European integration.**

Key events in November:

- The Ministry of Finance and the State Customs Service continued to prepare the new Customs Code of Ukraine, which will be fully based on the EU Customs Code.
- The implementation of previously adopted draft laws that bring Ukraine closer to the full application of EU customs legislation continues. For example, government agencies have been providing clarifications on how to apply the provisions of Law No. 3926-IX, most of which will come into force on April 19, 2025. As we noted in our October digest, this law effectively completes the implementation of the bulk of EU customs law (EU *acquis*) into Ukrainian legislation. Its implementation is one of the key steps for Ukraine's accession negotiations with the EU. By April, the government will have to adopt a number of bylaws to implement the law's provisions.
- However, given the parallel development of the new Customs Code and bylaws to implement the other Law No. 3977-IX, risk of delays exist, which may leave businesses without sufficient time to adapt and cause problems at the border when they initially become effective.

We recommend that exporters and importers read the text of Law No. 3926-IX in advance and follow the clarifications on the websites of the Ministry of Finance and the State Customs Service

# Fostering trade

Number of enterprises obtained AEO status in 2024 (monthly):



In November, six more companies received the status of authorized economic operator (AEO). Thus, as of the beginning of December, 70 companies had the AEO status, more than tripling their number over the year.

The reasons for this are as follows:

- new legislation that simplifies the criteria for obtaining AEO status;
- cancellation of the provisions on the so-called "national customs simplifications," which allowed the clearance of goods without entering the terminal (under the EA customs declaration) and "competed" with the AEO status, starting from November 2023.

In addition, in December, the Cabinet of Ministers approved a resolution granting AEO the right to priority border crossing using the Electronic Queue mechanism.

## ***For reference (see Appendix 1)***

*about the status of an authorized economic operator (AEO) and its prospects in Ukraine.*



## Authorizations for simplifications

(including transit ones, Oct'24)

Number of businesses  
authorized for specific  
simplifications

8

number  
of issued  
authorization

15

in particular  
transition  
authorization

5

**In November, the number of companies that received certain customs simplifications decreased to eight.** For comparison, in October, 13 companies received authorisation for certain simplifications, and a year ago, in November 2023, 34 companies received simultaneous authorisations.

The most popular simplification among businesses is the "release at location" procedure, which allows them to clear goods

directly on the company's premises, avoiding costs and delays due to the need to visit the customs terminal. The Customs Code also provides for additional conditions under which this simplification can be used to clear goods of other companies in their own warehouse.

Another simplification popular with businesses is the "independent application of special type seals". It allows companies to seal goods when they are exported from their own facilities without the involvement of customs officers.

Transit simplifications are granted to companies that move goods across the border under the terms of the Convention on the Common Transit Procedure or the TIR Convention.

In addition, in early November, the State Customs Service announced the launch of automatic customs declarations for goods cleared for export using the simplified "release procedure at the location" and "self-sealing" simplifications.

The automatic customs clearance of certain categories of goods will speed up customs clearance, reduce the impact of the human factor on customs clearance, and optimize customs officers' working time to more effectively control high-risk goods.

## Number of completed common transit operations at destination customs

(monthly/year-to-date)

Import of goods



2 570

27 780

Export of goods



6 563

68 511

**In November, the number of joint transit operations for the import of goods decreased in comparison to October.** This downward trend may be due, among other things, to the overall decline in imports of goods to Ukraine.

Ukrainian businesses use transit procedures under the Convention on a Common Transit Procedure twice as often as entrepreneurs from other countries when supplying goods to Ukraine.

It is not uncommon for foreign counterparties to file a transit declaration solely to the Ukrainian border, and not directly to the Ukrainian company's facility.

This may be due to possible risks due to the military actions of the Russian Federation. The foreign trade entities of other Convention member states are afraid to guarantee the payment of customs duties (provide financial guarantees) even though the destruction of property as a result of military actions of the Russian Federation on the territory of Ukraine is a force majeure circumstance and provides for the exemption of European companies from customs duties in such cases.

*As a reminder: Ukraine's accession to the Convention on a Common Transit Procedure is not only a condition for our country's accession to the European Union. Moving goods across the border under the Convention provides companies with significant benefits. In particular, goods can be transported in transit through the territories of other countries on the basis of a single transit document and without intermediate control by the customs administrations of such countries. This allows companies to reduce the cost of customs clearance in each of the intermediate countries, shorten the time of customs clearance, and, accordingly, reduce the time of delivery of goods from the sender to the recipient.*

## Customs reform

The Law No. 3977-IX On Establishing Peculiarities of Service in the Customs Authorities and Certification of Customs Officials, adopted in September, stipulated that the Government and the Ministry of Finance would approve a number of bylaws aimed at reforming the customs authorities by 1 December.

However, despite the requirements of the law, none of the bylaws, including those on contracts, polygraphs, declarations of integrity, staff rotation and the Disciplinary Committee, had been approved as of December. This effectively prevents the law from being implemented.

It is worth reminding that the implementation of Law No. 3977-IX is a structural beacon of the updated IMF memorandum on the results of the fifth review of the Extended Fund Facility (EFF) program. According to the Memorandum, by the end of June 2025, Ukraine must appoint the head of the State Customs Service and permanent heads for all regional customs offices. This means that this obligation must be fulfilled, and preferably without missing the deadline.

As part of this commitment, the government must establish a Commission to select the head of the State Customs Service by Jan. 1, 2025. Currently, the Commission has not yet been established.

Instead, as already mentioned, in December, the Cabinet of Ministers established the position of the Government Commissioner for Customs Reform and the Interagency Working Group on Customs Reform.

Moreover, the main tasks set by the government for the Government Agent and the Interagency Group differ:

- The Government Commissioner is to prepare proposals for reforming the customs authorities as part of the implementation of the **National Revenue Strategy until 2030**.
- The Interagency Working Group is preparing proposals and recommendations for updating and/or amending **the Strategy for Reforming the Public Finance Management System for 2022-2025** (although it is unclear to what extent, since

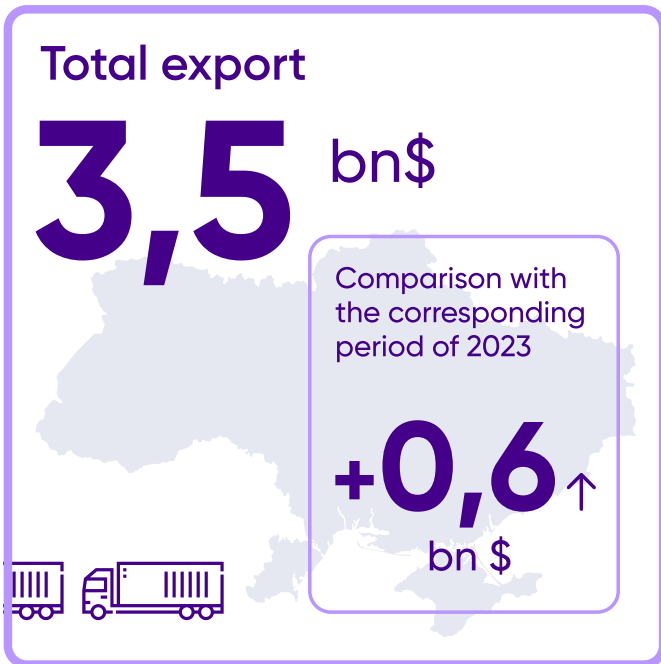
this strategy does not only apply to customs). Moreover, in terms of customs reform, this Strategy refers to the Action Plan for the Implementation of Conceptual Directions for Reforming the System of Bodies Implementing the State Customs Policy, approved by the Cabinet of Ministers of Ukraine in 2020. These provisions are indeed outdated, as the Strategy was approved in 2021 and does not take into account the impact on public finances of martial law, Ukraine's EU candidate status and the start of EU accession negotiations.

**It is surprising that the relevant resolutions of the Cabinet of Ministers of Ukraine do not contain a single word about the need to take measures to implement Law 3977-IX or to organize a competition for the position of the head of the State Customs Service.**

The task of the Working Group to **"prepare proposals and recommendations on the importance of preventing further delay in the reform of the customs authorities"** also looks very strange.

It is unclear who exactly is the stakeholder of these proposals, what is their purpose, and why the Cabinet of Ministers is asking for recommendations, not even specific measures to reform customs, but simply recommendations to the government not to delay the reform. Given that the same government has noted the urgent need for customs reform in about a dozen approved strategies and plans since 2019

# Statistics on foreign trade turnover

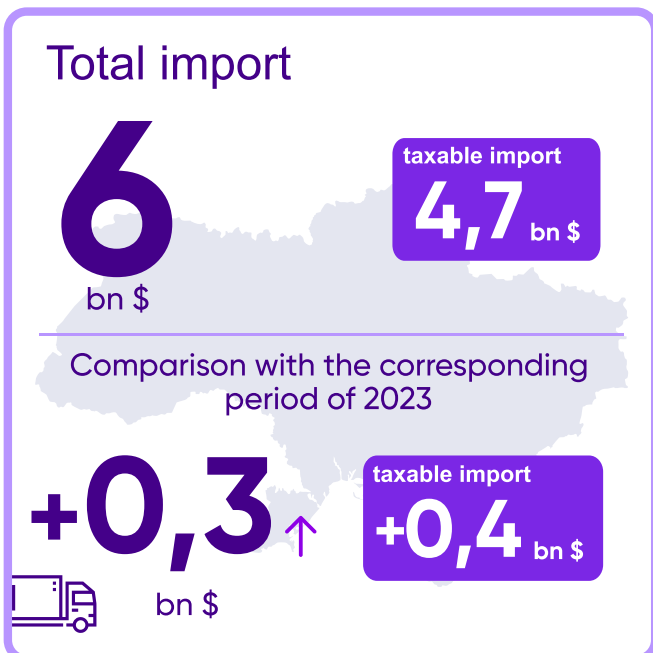


The increase in exports in November compared to the same period in 2023 reflects the general yearly trend of Ukrainian exports reaching pre-war levels.

The top three most exported goods from Ukraine were:

- Food products – \$22.6 bn
- Metals and metal products – \$4.1 bn
- machinery, equipment and transport – \$3.2 bn.

During the current year, Ukraine exported most of its goods to Poland (\$4.4 billion), Germany (\$2.7 billion), and Spain (\$2.7 billion). Compared to the previous year, the top three countries to which Ukraine exported goods have changed: Germany and Spain have replaced Romania and Turkey, respectively.



In November, the volume of imports of goods in U.S. dollar terms slightly decreased compared to October this year. In particular, the volume of taxable imports was \$0.2 billion lower.

Thus, in November, compared to the previous month, there was a decrease in the volume of imports of the following categories of goods to Ukraine:

- mineral fuels; crude oil and its distillation products; bituminous substances; mineral waxes – by 110.4 thousand tons and \$87.6 million;
- plastics, polymeric materials and products made of them – by 8,000 tons and \$27.2 million;

- ferrous metals – by 6,700 and \$12.4 million.

Since the beginning of the year, Ukraine has imported goods worth \$63.6 billion. Taxable imports amounted to \$52.1 billion, which is 82 percent of the total volume of imported goods to Ukraine. Over the same period last year, Ukraine imported goods worth \$57.2 billion. At the same time, taxable imports amounted to \$47.6 billion.

The tax burden per 1 kilogram of taxable imports in January-November 2024 was \$0.51 per kilogram, which is 4 percent higher than in the same period of 2023.

It should be noted that in the current year, the largest volumes of goods imported to Ukraine came from the following countries: China (\$13 billion), Poland (\$6.3 billion), and Germany (\$4.8 billion).

## Meeting targets

### Status of indicative target achievement

Actual customs duty revenues

**51,3**

bn UAH

Planned revenues

**65,1** UAH billion

Percentage of achievement

**78,7%**

In November, the State Customs Service traditionally failed to meet the indicative targets of state budget revenues from customs payments.

In fact, in the second half of the year, the customs authorities did not meet the targets in any month. As we noted in the [previous digest](#), in October, the shortfall was UAH 8.1 billion or 13%.

However, actual budget revenues increased compared to the previous year. In November, the state budget received UAH 12 billion more than

last year (UAH 51.3 billion versus UAH 39.2 billion in November 2023). In January-November 2024, the State Customs Service actually transferred UAH 555 billion of the set indicative revenue target, or 97% of the total. These results were achieved by exceeding the targets set at the beginning of the year.

At the same time, given the annual practice of the Ministry of Finance to increase the expected year-end revenue targets and the lack of prerequisites for an increase in taxable imports, it is likely that the customs will also fail to meet the target in December.



## Status of indicative tax revenues achievement

Import duty

**3,9** bn UAH

**85%**  
of the plan

VAT on imported goods

**40** bn UAH

**77%**  
of the plan

Excise tax on imported goods

**7,5** bn UAH

**85%**  
of the plan

Export duty

**0,04** bn UAH

**44%**  
of the plan

In November 2024, as in the previous month, customs revenues did not reach the indicative figures in all areas. The largest shortfall was recorded for VAT on imported goods - UAH 12 billion, which is 15% of the plan.

Particularly noteworthy is the significant gap between the planned and actual amounts of export duty revenues. Out of the planned UAH 51 million, the state budget actually received only UAH 22 million. In total, UAH 270.3 million has been paid

since the beginning of the year, or only 47% of the target.

The State Customs Service attributes the failure to meet the targets to several factors:

- 1 Reduction of actual volumes of taxable imports, in particular of budget-forming goods;
- 2 an increase in the volume of goods imported with privileges;
- 3 protests at the border and blocking of border crossing points by Polish activists, which restricted freight traffic to Ukraine;
- 4 discrepancy between actual and forecast exchange rates. The average annual exchange rate of the hryvnia to the dollar in the state budget was set at 40.7 UAH/USD, which was the basis for the planned revenues from imports and exports. However, the actual exchange rate in January-November was 40 UAH/USD. This difference resulted in a shortfall of UAH 6.8 billion.

## Customs exemptions (UAH)

 Import duty **5,2** bn

 VAT on imported goods **12,7** bn

 Excise tax on imported goods **4,8** bn

 Export duty **0,3** bn

In November, the volume of import duty and VAT exemptions increased by another UAH 1.7 billion compared to October and reached UAH 22.5 billion. The amount of customs duty exemptions increased by 60% year-on-year in November.

The increase in benefits is due to several factors, in particular:

- ① **increase in the volume of imports of goods for which there are privileges.** For example, defence goods.
- ② **by expanding privileges.** For example, in the summer, the Parliament introduced new import privileges for goods to restore energy infrastructure damaged by Russian shelling.

As in October, the largest amounts of VAT relief were granted for the import of defence goods, goods for energy recovery, and electric vehicles.

The largest amounts of import duty exemptions in November were for goods from the EU (in line with the Association Agreement). In November, the amount of these benefits reached about UAH 3 billion.

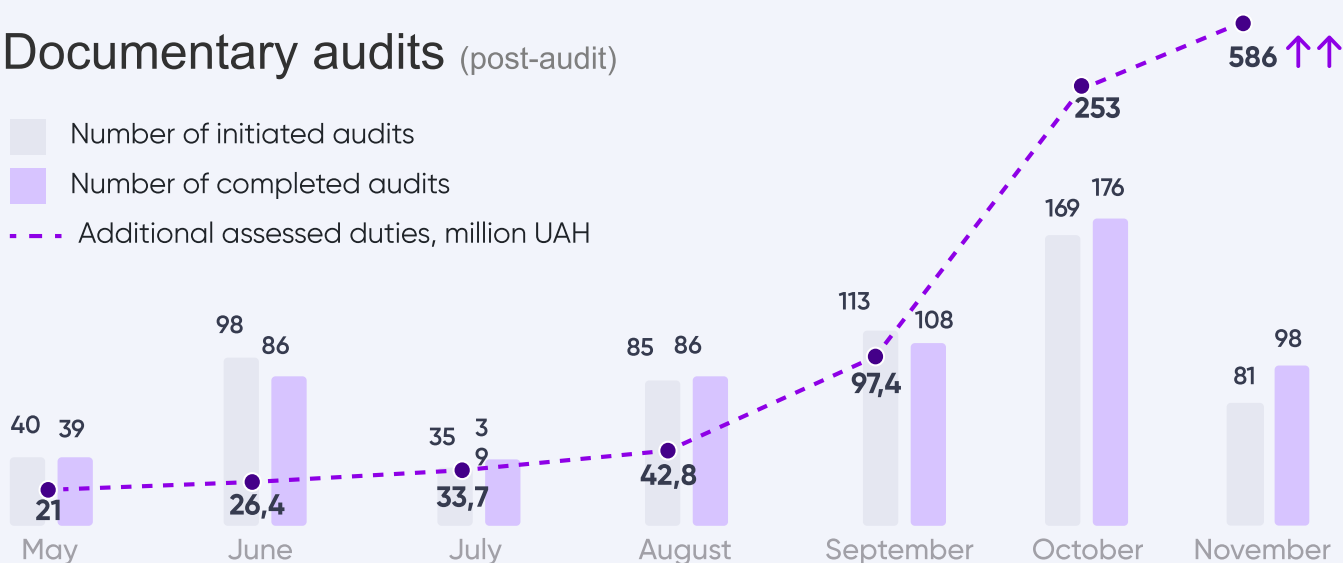
Export duty relief reached UAH 294 million, the highest figure since the beginning of the year. This result is also UAH 53 million higher than in October.

*For reference. In Ukraine, export duties are imposed on exports of sunflower seeds and oil, ferrous and non-ferrous metal scrap, and certain types of domestic animals (cows, sheep, etc.). When exporting these goods to the EU or other countries with which Ukraine has concluded free trade agreements, the exporter may receive an export duty exemption in the form of a full exemption or reduction of the relevant duty rate.*

## Implementation of control functions

### Documentary audits (post-audit)

- Number of initiated audits
- Number of completed audits
- - - Additional assessed duties, million UAH





In November, the number of initiated and completed customs compliance checks halved. Nevertheless, the amount of additional customs duties accrued doubled compared to October. In November, only about UAH 6 million out of the UAH 586 million additionally accrued was paid to the state budget.

Since May, when audits were resumed, the total amount of voluntary payments has amounted to only UAH 24 million, or 2% of the total amount of additional charges. At the same time, the tax debt has increased to UAH 312 million over this period.

Although the level of voluntary payment remains low, it is too early to assess the effectiveness of post-clearance control, as only six months have passed since the customs authorities were allowed to conduct inspections.

#### Number of decisions on customs value adjustments

Year-to-date:

**13 611**  
(+1334)

Amount, (UAH):

**2,5 bn**  
(+233 mln)

#### Number of decisions on goods classification

Year-to-date:

**1 495**  
(+132)

Amount, (UAH):

**0,4 bn**  
(+69 mln)

In November, customs made 17 more decisions on the classification of goods than in the same period last year. The total amount of additional payments based on these decisions tripled.

There is also a tendency to increase the amount of additional customs duties based on decisions to adjust the customs value of goods.

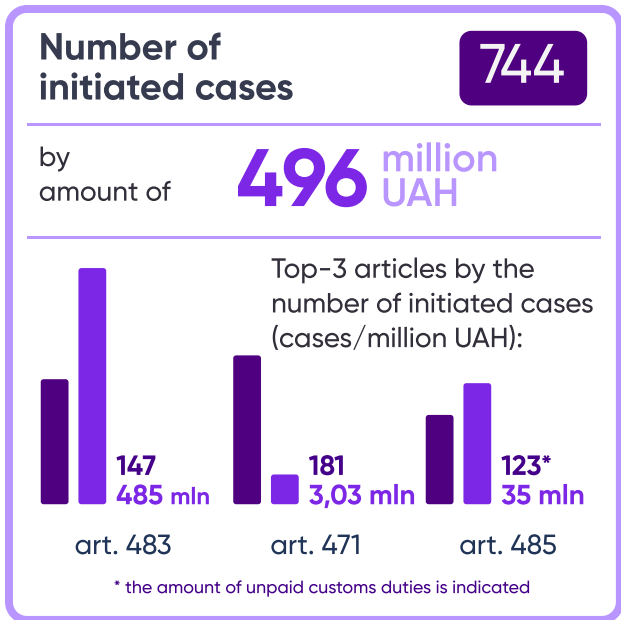
An analysis of the State Customs Service data shows that revenues from customs value adjustments are the main additional revenues

from customs officers' control functions over the completeness of customs payments by taxpayers (compared to revenues from decisions on the classification of goods, determination of the country of origin, and documentary inspections).

At the same time, the amount of additional customs payments based on decisions to adjust the customs value in January-November this year is only 1% of the total amount of revenues. This indicates that the vast majority of customs duties in Ukraine are paid voluntarily by taxpayers.

***For reference (see Appendix 2)***

*problems with customs value adjustment.*



The number of recorded violations of customs regulations (hereinafter referred to as "violations") does not change significantly from month to month. The most common offence remains the movement of goods across the border concealed from customs control. At the same time, in November, the customs authorities did not record any offences under Article 482 of the Customs Code of Ukraine - movement of goods outside the location of the customs authority.

Since the beginning of the year, customs:

- recorded 8,748 administrative offences worth UAH 17.8 billion (the value of detected violations increased by 2 times compared to the same period in 2023), of which 940 cases were opened as a result of cooperation with the customs authorities of foreign countries worth UAH 6 billion.
- imposed administrative penalties in the form of fines in 2,484 permanent residence cases, including those initiated in previous periods, amounting to UAH 80 million, of which UAH 73 million was collected to the State Budget.
- submitted 4,876 transfer pricing cases worth almost UAH 17 billion to the courts. As a result of court proceedings, including those initiated in previous periods, the court imposed penalties (confiscation of goods and fines) in the amount of UAH 3.8 billion.

A customs resolution in a permanent residence case may be appealed by the offender to the court directly or to a higher authority, i.e. the State Customs Service. However, despite the fact that this requires financial costs and takes longer than the consideration of relevant complaints by the State Customs Service, persons brought to administrative responsibility almost always go to court. In the first 11 months of this year, the State Customs Service checked the legality and validity of only 17 customs resolutions, 13 of which were upheld. This indicates low business confidence in the internal appeal procedure.



During the year, the average time for customs clearance of customs declarations remained almost constant (fluctuations are within a few minutes) and fell within the 4-hour time limit set by the Customs Code of Ukraine. In November, the average time for customs clearance of import customs declarations increased by two minutes compared to October.

Concurrently, the State Customs Service currently calculates the average customs

clearance time using an independently developed methodology. As a result, it is impossible to establish how much time is actually required for a foreign trade entity to clear goods in Ukraine from the moment of crossing the border to the release of goods into a particular customs regime.

In accordance with the tools developed by the World Customs Organisation (WCO), the entire actual time required for the release and/or customs clearance of goods from arrival to physical release is subject to measurement in order to identify bottlenecks in trade processes and take measures to improve the efficiency and effectiveness of border procedures.

We believe that the mechanism of measuring release time according to the WCO methodology is more effective and capable of showing the real duration of customs procedures in Ukraine.

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# Appendixes

## **Appendix 1**

### *Context and prospects in Ukraine*

*AEO is a special status that certifies a high degree of customs confidence in a company and allows it to enjoy benefits and simplifications.*

*The AEO status (depending on the type of AEO-C or AEO-B) provides companies with a number of benefits, such as expedited customs clearance through priority border crossing and the ability to use separate lanes at checkpoints. In addition, companies with AEO status receive a lower-risk status when moving goods and can clear cargo directly at their facilities, which reduces the logistics costs associated with visiting the terminal.*

*The World Customs Organisation (WCO) introduced the AEO concept in 2005. Since then, the WCO has been tracking the progress of AEO programmes around the world and recording it in a regular document, the Compendium.*

*According to the latest data, there are 97 AEO programmes in operation worldwide, and another 20 are in the process of being launched. Within the framework of these programmes, 87 bilateral and 4 multilateral/regional agreements on mutual recognition of AEO status (MRA) have already been concluded.*

*In the EU, more than 80% of customs clearances are carried out by companies using AEO tools.*

*According to the autumn meeting of the Subcommittee on Customs Cooperation of the EU-Ukraine Association Committee, in order to achieve mutual recognition with the EU, Ukraine needs to increase the number of AEO-B authorisations to at least ten, while currently only three companies have them.*

## **Appendix 2**

*The customs value can be determined by six methods, the main of which is the first method - the transaction price.*

*When adjusting the customs value declared by companies, the customs authorities most often use the VI (reserve) method, which involves adjusting the customs value based on the information available to the customs on the customs values of similar goods cleared earlier.*

*The vast majority of business complaints against customs are related to decisions on customs value adjustments. And the lion's share of such complaints is related to the unreasonableness of customs officers' adjustments to customs value under the 6th method.*

*According to the State Customs Service, the courts have already cancelled 947 decisions on customs value adjustments made this year. In this regard, taxpayers are to be refunded UAH 186 million of overpaid customs duties from the state budget.*

*Thus, it can be stated that the customs authorities are ineffective in controlling the correctness of the customs value of goods and have very little impact on budget revenues.*