

## SIMPLIFIED CUSTOMS PROCEDURES – ADVANTAGES AND OBSTACLES IN THE REPUBLIC OF MACEDONIA

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**Abstract:** *The efficiency, security and safety of international supply chains are highly depended by Customs management tools, procedures and operations applied. Due to the rapid growth of international trade, on one, and the social safety and security challenges, on the other hand, the Customs management policies are in a process of redefining. Generally, the main goals of Customs policies along with revenue collection and implementation of trade policy measures are broadened with ensuring trade facilitation and social security and safety. This complex and dynamic process is known as Customs modernization and it represents the most important part of the international trade facilitation agenda.*

*The main task of Customs modernization process is to put in place a well functioning Customs administration that provides traders with transparent, predictable and speedy clearance of goods. One of the most important parts of this process are simplified Customs procedures that means placing goods in Customs procedure by omitting data and/or documents, as well as with bookkeeping records whereby goods may go directly to or from trader's premises.*

*This paper aims to analyse the process of imposition and implementation of simplified Customs procedures, with emphasizing the advantages and obstacles in authorization and application in the Republic of Macedonia. Regarding that the official data for issued certificates and processed Customs declarations in simplified Customs procedures from the Macedonian Customs Administration are analysed. Additionally, the results from conducted interviews with authorised trade operators and Customs authorities reveal the advantages and problems in application of simplified Customs procedures, whereby main advantages are related with time and cost reductions, while strict procedural requirements are recognized as a problem.*

**Key words:** *Customs modernization, simplified Customs procedures, local clearance, Republic Macedonia*

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### INTRODUCTION

The rapid growth of world merchandise trade, in conditions of permanent need for speed cross-border flows, is the main determinant of everyday activities of Customs administrations. Numerous international institutions and organizations, including the World Bank, the World Trade Organization and the World Customs Organization, devote a great effort to identify and to resolve problems that Customs administrations all over the world face in managing numerous administrative documents and procedures.

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Customs modernization as a comprehensive streamlining of processes, formalities, procedures and documents handled by Customs, is consisted of several interdependent activities related with establishment and implementation of improved law regulations; risk management; simplified customs procedures and post-clearance audit; paperless environment and e-customs; improved human resource management and Customs-to-Customs and Customs-to-Business cooperation. Special improvements are related to establishment of simplified customs procedures and greater inclusion of trade operators in customs issues, such as local clearance.

This paper aims: *firstly*, to give an overview of the basic types and the process of authorization of simplified Customs procedures; *secondly*, to reveal the level of implementation of simplified Customs procedures; and *thirdly*, to determine the advantages and obstacles that trade operators and Customs officers face in implementation of simplified Customs procedures in Macedonian practice.

The official data published by the Macedonian Customs Administration (MCA) regarding Customs declarations processed in regular and simplified procedures in export and import, on one, and issued certificates for different types of simplified Customs procedures, on the other hand, will be the one of the basic sources in this research. Additionally, the results of the conducted interviews will reveal the advantages and obstacles that trade operators and Customs officers face in implementation of simplified Customs procedures in Macedonian practice.

Along with the introduction and conclusion sections, this paper is consisted of three parts. The first part is dedicated to the presentation of the basic types and the process of authorization of simplified Customs procedures. The second part is an analysis of the processed Customs declarations in regular and simplified procedures in export and import, and issued certificates for different types of simplified Customs procedures, while in the third part the results of the conducted interviews are presented.

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Prof. Biljan has published over 40 academic and research papers, as well as 17 books. She has participated in many international conferences and research projects, and she has accomplished several study stays. Especially significant is her study stay in the College of Charleston, Charleston, SC, USA, as a grant holder from the Fulbright Scholar Program.

## **SIMPLIFIED CUSTOMS PROCEDURES – TYPES AND PROCESS OF AUTHORIZATION**

Simplified Customs procedures are one of the most important trade facilitation measures in the Customs modernization process implemented by the International Convention on the Simplification and Harmonization of Customs Procedures, known as the Revised Kyoto Convention [1], that are imposed in the Macedonian Customs Code [2], as well.

Mainly, there are several simplified Customs procedures: (a) simplified declaration; (b) local clearance; (c) simplified transit procedures; (d) authorized exporter and (e) authorised economic operator – AEO.

*Simplified declaration* is implemented by the Standards 3.12 – 3.15 of the Revised Kyoto Convention and allows a trade operator to lodge a Customs declaration, although all necessary data or documents are not available at the moment to complete declaration for its submission to Customs. These Customs simplifications include two exemptions of a standard Customs declaration at the time of customs clearance [3]:

- *Lodgement of incomplete Customs declaration*: Customs simplification that allows an economic operator to omit certain data or supporting documents to a Customs declaration. The Customs legal regulation limit the requested information and documents that should be presented in the declaration, except the data related to customs debt determination, the compilation of statistics and the application of the Customs law;
- *Lodgement of a commercial or administrative document*: usage of a commercial or other administrative document, along with the application for a specific customs procedure, instead of a Customs declaration.

*Local clearance* is a simplified Customs procedure that means placing goods in Customs procedure only with their registration in bookkeeping records of authorized trade operator. Goods may go directly to or from the premises of economic operators, provided that they are entered into the records of the company. Also, this simplification allows implementation of a Customs procedure outside working time of Customs office.

*Simplified Customs transit procedures* are special facilitation measures that according to the direction of trade flows are taking form of authorized consignor and authorized consignee.

- *Authorized consignor* is a regular, large-scale consignor of goods who may be authorized by Customs authorities to issue and authenticate transit documents without having to present them to Customs at the time of export/dispatch.
- *Authorized consignee* is a trader who may be authorized by Customs authorities to move goods which arrive under the transit procedure to his own premises without first presenting them to Customs at the destination.

*Authorized exporter* is a type of Customs simplification that allows a holder of the authorization to prove the preferential origin with a statement in an export invoice, regardless of the value of the exported goods that the statement refers to. This is especially important if the exporter already has a local clearance authorization.

*Authorised economic operator (AEO)* is “a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards. AEOs

include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors” (WCO, 2011). According to the obtained authorization, three types of economic operators are distinguished [4]:

- *AOE for Customs simplification* - enables the economic operator to use Customs simplifications;
- *AOE for safety and security* – an economic operator is involved in facilitations related to safety and security of international supply chain, and
- *AOE for trade facilitation and safety and security* (one economic operator, at the same time, has got two previously mentioned types of authorization).

An authorized economic operator is electronically connected to the Customs administration and to the related state agencies. It is obligated to permanently exchange and to provide data related to customs operations to the Customs administration and other state agencies.

The process of *authorization* for simplified Customs procedure starts with the filing in a written request by a trade operator. A written request along with all necessary data and supported documents should be submitted to the competent Customs office. If economic operator requests simplification for several Customs procedures, the request shall be submitted at the same time for all import and/or for all export Customs procedures.

Upon the submission of a request, a competent Customs office firstly determines formal-documentary correctness, that is, whether (1) the request was submitted on a prescribed form; (2) the form is correctly and completely filled in, and (3) all the necessary documentation is attached.

Subsequently, a substantive review of the request is made to determine whether the trade operator meets the requirements for implementation of requested simplified procedure. After that, the competent Customs office should conclude whether the general and specific conditions are met. Only low risk trade operators who meet all legal requirements will be issued an authorization by Customs.

The obligations of a holder of an authorization shall be specified in the license. Also, the time validity of a certificate should be specified. Mostly, the first issued certificate for any simplified procedure is with the shortest validity period that is within one year.

Additionally, the applicant must submit a comprehensive guarantee for securing Customs debt

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payment. This guarantee is used only for import procedures, because in these procedures a customs debt could regularly occurred.

Lodged incomplete Customs declaration, as well as commercial or administrative document either bookkeeping records, will be accepted only if they contain at least data indispensable for goods' identification, that are data necessary for determination of Customs debt and application of Customs regulations.

Despite of the kind of the simplified Customs procedure applied, the authorized trade operator is obliged to submit a supplementary declaration. A time limit within which supplementary Customs declaration should be submitted is specified in issued certificate.

A competent Customs office is obliged to control all activities during and/or after completion of a specific Customs procedure. Also, trade operator as a holder of the authorization shall be obliged (1) to enable efficient and effective implementation of Customs control; (2) to place goods in their premises, at Customs office place or at a location determined by a competent authority that will carry out the control, and (3) to submit necessary documentation for inspection.

In a case when during the application of any simplified procedure, it is revealed that one or more of the conditions are not fulfilled or part of the obligations are not respected and the simplified procedure is not used in the prescribed manner, then the certificate could be suspended, revoked or changed by a competent Customs office.

## **REGULAR V.S. SIMPLIFIED CUSTOMS PROCEDURES IN MACEDONIAN PRACTICE**

The achieved level of implementation of simplified Customs procedures in Macedonian practice is analysed by the number of issued certificates for different types of simplifications, as well as by dynamic comparison of the number and structure of processed Customs declarations in regular and simplified Customs procedures in export and import.

The number of issued certificates for simplified Customs procedures by the MCA increased significantly in the analysed period.

In 2007, the MCA issued 11 authorizations for local import clearance and 26 authorizations for local export clearance, which increased more than threefold in 2016 when 48 authorizations for local import clearance and 75 authorizations for local export clearance were issued (Figure 1). Similarly, in 2007, the MCA issued 13 licenses for authorised consignee in transit and only 1 license for authorised consignor. During the analysed period, the number of issued licenses increased considerable and in 2016 the MCA issued 60 licenses for authorised consignee and 29 licenses for authorised consignor.

In 2012, certificates for two new kinds of authorisation were issued for the first time. The number of issued certificates for simplified declaration is very low, beside of the number of authorised exporter which is very high (77 in 2012 to 131 in 2016).

Only one certificate for AOE in Customs simplification and security and safety, as a combined certificate, is issued in 2013.

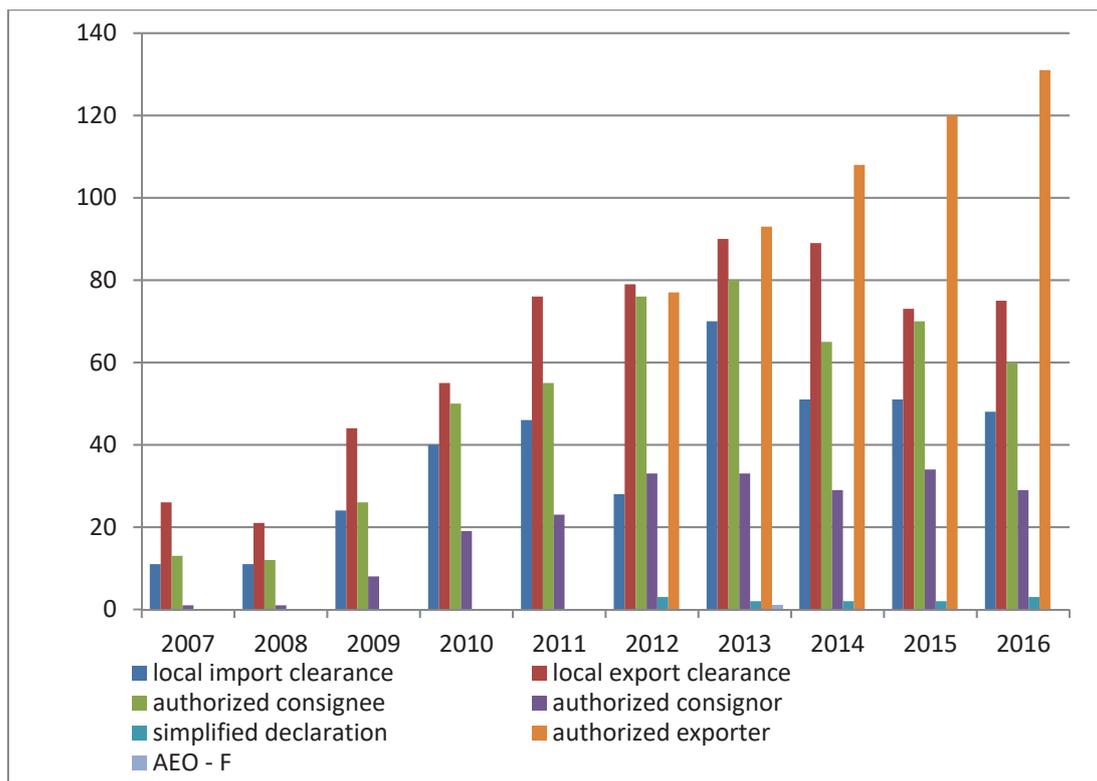


Figure 1: Number of issued authorizations for simplified procedures by the MCA

Source: [6], [7], [8], [9]

The structure of issued certificates for simplified Customs procedures by the MCA is presented in Table 1. According to the estimated data, in 2007, almost 2/3 of total number of issued certificates is for local clearance, i.e. 51% for local export clearance and 22% for local import clearance; and 1/3 are for simplified transit customs procedures, i.e. 25% for authorized consignee and only 2% for authorized consignor. In 2007-2011 period, the structure is considerably changed in favour of authorized consignor (from 2% in 2007 the participation of this kind of authorization rose to 12% in 2011). In 2012, additional two authorizations are issued: simplified declaration (only 1% of total issued certificates for simplified Customs procedures in 2012-2016 periods) and authorized exporter (from 26% in 2012 to 38% in 2016).

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It is very important to emphasise that the data presented in the Figure 1 and Table 1 refer only to the number of annually issued new certificates. That means the number of certificates issued for the first time to an operator in a year are calculated in the presented data. For example, a certificate of an operator who has been authorized in 2015 is counted in the same year, although the operator is authorised in 2016, as well. But the operator does not apply for a new certificate

in 2016; it applies only for continuation of the previously granted certificate.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>local import clearance</b>	22	24	24	24	23	9	19	15	15	14
<b>local export clearance</b>	51	47	43	34	38	27	24	26	21	22
<b>authorized consignee</b>	25	27	25	30	28	26	22	19	20	17
<b>authorized consignor</b>	2	2	8	12	12	11	9	8	10	8
<b>simplified declaration</b>	0	0	0	0	0	1	1	1	1	1
<b>authorized exporter</b>	0	0	0	0	0	26	25	31	34	38
<b>AEO - F</b>	0	0	0	0	0	0	0	0	0	0
	<b>100</b>									

Table 1: Dynamic structure of issued certificates for different types of simplified Customs procedures by the MCA in 2007-2016 period (%)

Source: [6], [7], [8], [9] Own estimates

Cumulatively analyzed, in 2007-2016 period, 2267 certificates for simplified Customs procedures are issued by the MCA, out of which the major part are certificates for local clearance (45% of total number of issued certificates). According to the data, 17% are certificates issued for local import clearance, 28% for local export clearance; 22% for authorised consignee; 9% for authorised consignor; 1% for simplified declarations and 23% for authorized exporter (Figure 2).

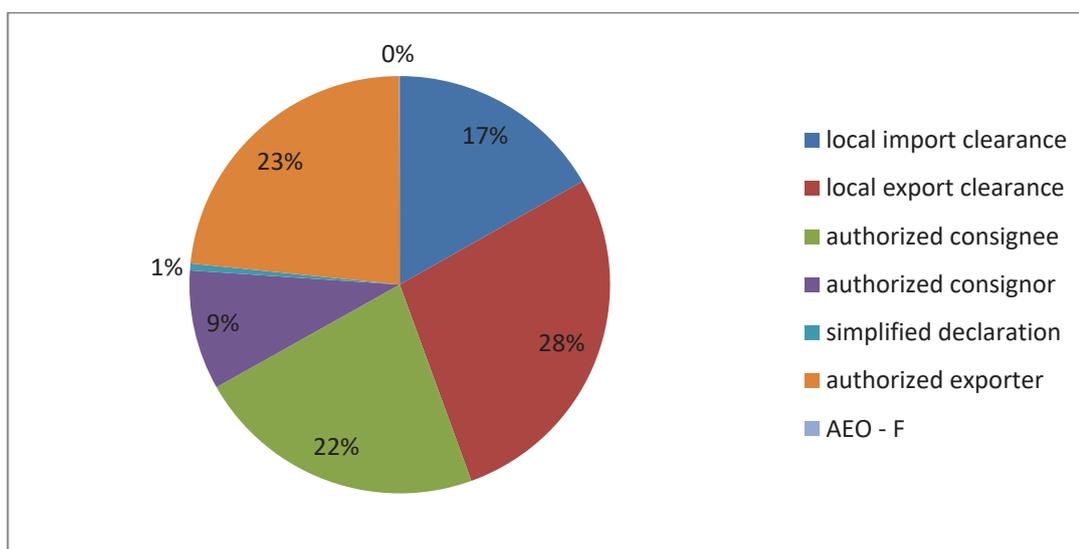


Figure 2: Structure of issued certificates for simplified customs procedures by the MCA in 2007-2016 period (%)

Source: [6], [7], [8], [9] Own estimates

According to the data presented in Figure 2, the mayor part of issued authorizations are for export Customs simplification procedures, i.e. at least 73% of total number of issued authorisations in the analysed period. This situation is resulted by several preconditions, especially because generally, no customs debt occurs in export procedures, that qualified them as less complex than import ones.

At the beginning of the analysed period, the number of issued authorizations was lower,

especially because of the insufficient information on benefits and advantages from such facilitation measures available for traders. Macedonian economic operators are very interested in implementation of simplified customs procedures, and therefore the number of certificates issued for different types of simplifications is permanently increasing.

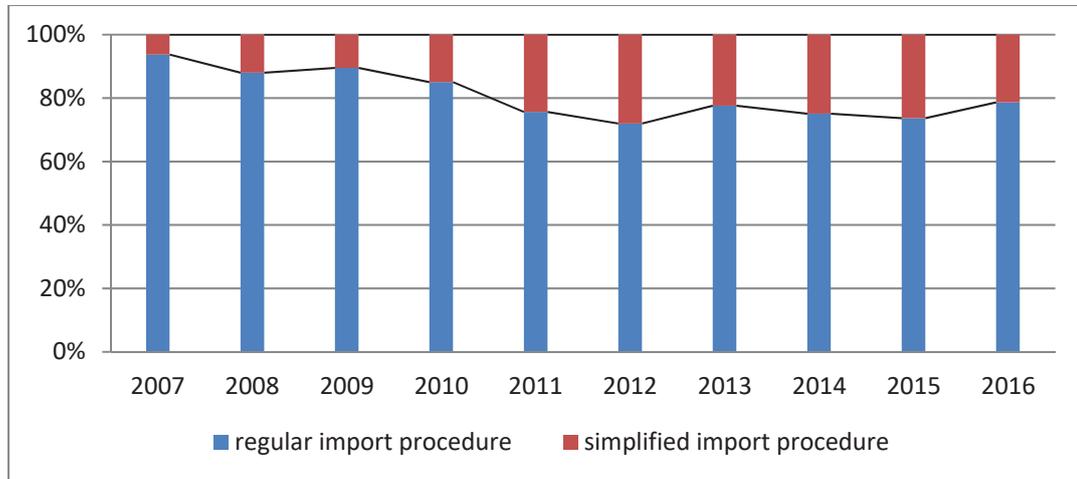


Figure 3: Dynamic structure of number of Customs declaration processed in regular and simplified import Customs procedures (%)

Source: [6], [7], [8], [9] Own estimates

The participation of Customs declarations processed in regular import procedures declined from 94% in 2007 to 79% in 2016, while the participation of processed Customs declaration in simplified import procedures rose from 6% in 2007 to 21% in 2016 (Figure 3).

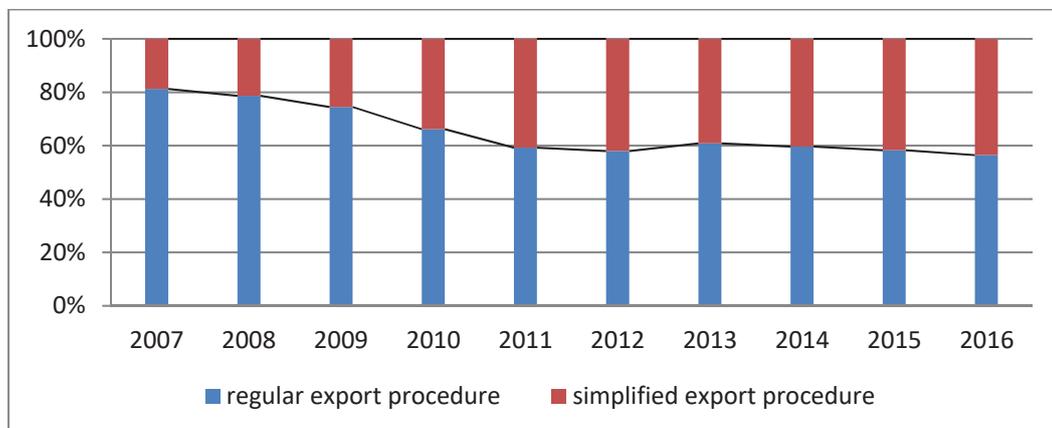


Figure 3: Dynamic structure of number of Customs declaration processed in regular and simplified export Customs procedures (%)

Source: [6], [7], [8], [9] Own estimates

The data presented in Figure 2 revealed the permanent growth of the number of Customs declarations processed in simplified related to regular Customs procedure in exports, as well. The participation of 81% of processed export declarations in regular procedures in 2007 declined to 56% in 2016, whereby the percentage of processed export declarations in simplified export procedures increased from 19% in 2007 to 44% to 2016.

This implies that the application of simplified Customs procedures grows permanently in the analysed period.

Customs procedures	import procedures		export procedures	
	regular	simplified	regular	simplified
<b>growth rate % (2016/2007)</b>	<b>28</b>	<b>418</b>	<b>-34</b>	<b>120</b>

Table 3: Growth rate of processed customs declarations in regular and simplified procedures in 2016 related to 2007

Source: [6], [7], [8], [9] Own estimates

The number of processed Customs declaration in simplified import procedures rose 418% in 2016 related to 2007, and the number of processed Customs declaration in simplified export procedures increased for 120% in the same period (Table 3). Also, the number of processed Customs declaration in regular import procedures increased only for 28%, whereby the number of processed Customs declaration in regular export procedures decreased for 34% in 2016 related to 2007. These imply that Macedonian trade operators found large advantages in application of simplified import and export Customs procedures. However, it is worth to be mentioned that the higher growth rates of processed Customs import declarations mainly are result of higher growth rates of import value and volume in Republic of Macedonia related to export ones.

### **ADVANTAGES AND OBSTACLES IN IMPLEMENTATION OF SIMPLIFIED CUSTOMS PROCEDURES**

According to the designed methodology, relevant data for advantages and obstacles that economic operators face during implementation of simplified customs procedures are obtained by conducted interviews. The interviews are conducted with 18 persons that include relevant economic operators, as well as involved customs officers, during five month period. Generally, during the interviews, operators and officers mostly emphasize the advantages and obstacles of local clearance in import and export procedures. According to their opinion, local clearance is the most important procedure, and mainly, it is a main reason for implementation of other simplified procedures.

The most important advantage from application of simplified Customs procedures is the *possibility to clearance goods 24/7*, i.e. the customs clearance process do not depend on customs offices' working time. Additionally, authorized trade operators for local clearance perform *clearance of customs goods in their premises*. These two allowances, result in *reduction of clearance time, as well as clearance costs*, related to usage of customs terminals; driving to the terminal and back to their premises; costs for accommodating vehicles; customs agent fees, etc.

Although authorized operators should place a guarantee for customs debt that could arise, one of the mentioned advantages was related to facilitation related to debt payment. Authorized operators are obliged to pay customs debt at the moment of lodgment of supplement customs declaration, which means that the debt incurred for all imports realized during one period they will be paid after a week or a month which depends on the time limit noted in the certificate.

Simplified Customs procedures, according to authorized operators, help them in decision-making process, especially in purchase and delivery management. They could make more precise plans, i.e. they could make their business activities more effective and more predictable that are very important for supply chain effectiveness.

Customs officers emphasize that the main advantage is the possibility to *better deployment of employees; reduction of time delays* especially in high season period for agricultural products;

*increasing performance; lower tax and tariff evasion; increasing the supply chain safety and security, etc.*

The *conditions that should be accomplished in the licensing process* are recognized as a main obstacle for implementation of simplified customs procedure, especially for small and medium enterprises. Mainly, they address the *financial problems to obtain a guarantee* for Customs debt that could occur, as well as *prescribed bookkeeping records* and implementation of special software for customs purposes.

One of the most frequent opinions due to obstacles for implementation of customs simplified procedures is *insufficient information*, especially for small enterprises. These companies do not have sufficient information for these kinds of simplifications. Their main preconception is that the implementation of simplified customs procedures is very complex and difficult process.

Another obstacle for potential implementer of simplified customs procedures is a *lack of self-confidence* due to high responsibilities of an economic operator during implementation of these procedures, mainly related to the fact that an operator itself prepares and registers customs declaration. The main fear is related with the high fines that are imposed for an economic operator in case of mistakes during the preparation and registration of customs declaration. Therefore, especially for small enterprises it is easier to transfer the responsibility to customs agent other than to take the responsibility and be fined.

However, the basic determinant whether to engage a customs agent and apply a regular customs procedure or to apply a simplified Customs procedure is the number of exports and/or imports by an operator in a given period of time. If the number of exports and/or imports, i.e. customs declarations submitted by an operator in a month is high (more than 10), simplified Customs procedures are justified and economically correct decision. But, in the case of lower number of customs declarations submitted by an operator in a month, than the regular procedures are more economically efficient.

## CONCLUSION

Simplified Customs procedures are one of the most important trade facilitation measures in Customs modernization process that are implemented by the International Convention on the Simplification and Harmonization of Customs Procedures, known as the Revised Kyoto Convention, which comprises of (a) simplified declaration; (b) local clearance; (c) simplified transit procedures; (d) authorized exporter and (e) authorised economic operator – AEO.

The number of issued authorizations for Customs simplified procedures was lower at the beginning of the analysed period, especially because of the insufficient information on benefits and advantages from such facilitation measures available for traders. But during the time, Macedonian economic operators were very interested in implementation of simplified customs procedures, and therefore the numbers of certificates issued for different types of simplifications, on one, and the numbers of processed Customs declarations in simplified procedures, on the other hand, are permanently increasing.

The main advantages from simplified Customs procedures that trade operators point out are the following: possibility to clearance goods 24/7 clearance of customs goods in their premises; reduction of clearance time and clearance costs; payment of customs debt at the moment of lodgment of supplement customs declaration; increasing supply chain effectiveness, etc.

Customs officers, as well, point out some advantages from simplified procedures' implementation, such as: possibility for better deployment of employee; reduction of time delays especially in high season period; increasing performance; lower tax and tariff evasion; increasing the supply chain safety and security, etc.

However, there are several obstacles in the process of implementation of simplified Customs procedures, recognized by trade operators. Mainly, the obstacles are related to the strict conditions that should be accomplished in the licensing process; financial problems to obtain a guarantee for Customs debt that could occur; prescribed form of recordkeeping for Customs purposes; insufficient information, etc. During the interviews with trade operators, additional indirect problems were revealed. These problems are related to prejudice that the implementation of simplified Customs procedures is very complex and difficult process, on one, and the lack of self-confidence due to high responsibilities and high fines imposed for mistakes in performing procedures, on the other hand.

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