



**Business Regulatory, Investment,
and Trade Environment Program
(BRITE)**

IMPROVING E-CUSTOMS AND AEO PROGRAMS IN MOLDOVA

RESULTS OF SURVEYS OF BUSINESSES IN OCTOBER 2015

FOR INTERNAL REVIEW ONLY

Contract No. AID-117-I-12-00001

January 2016

This publication was produced for review by the United States Agency for International Development (USAID). It was prepared by Chemonics International. The views expressed in this document are those of the authors and do not necessarily reflect the view of USAID or the U.S. Government.

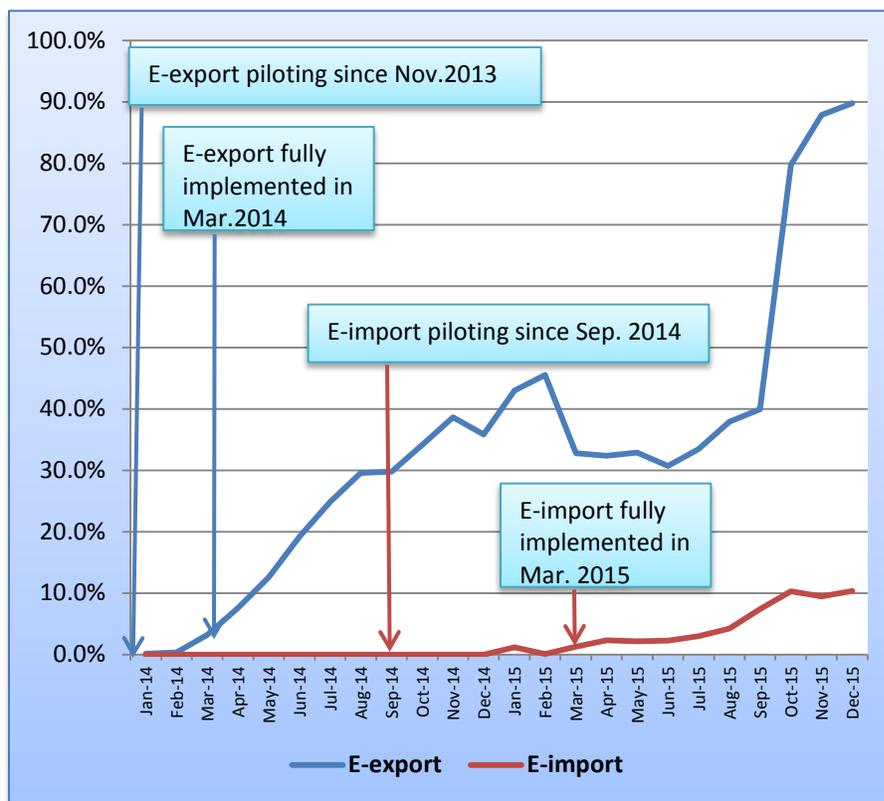
Background

The time and cost to move goods across borders directly impacts a country's GDP and investment attractiveness. Moldova has historically ranked very low on global trade indicators and, until recently, the number of documents required for import and export and the time to clear goods were far above best international and regional practices. This negative assessment also has been supported by timing studies undertaken by MCS and BRITE in 2013 and 2014, and through anecdotal evidence gathered from Moldovan traders.

Some of the key findings in these assessments were the numerous documentary requirements, the insistence on paper submissions, the necessity to transit through inland customs terminals, regular and direct contact with customs officers, and, in some cases, the involvement of other trade regulating authorities.

Figure 1. Evolution of the share of electronic export and import declarations, in total, including those submitted electronically (January 2014 – December 2015).

Source: Moldova Customs Service



As a first step to address some of these issues, the Moldova Customs Service (MCS) introduced the concept of the electronic declaration in November 2013. Initially, MCS introduced the electronic export declaration in late 2013 as a pilot and then nationwide in early 2014. Similarly, MCS introduced electronic import declarations as a pilot in September 2014 and nationwide in March 2015. Since that

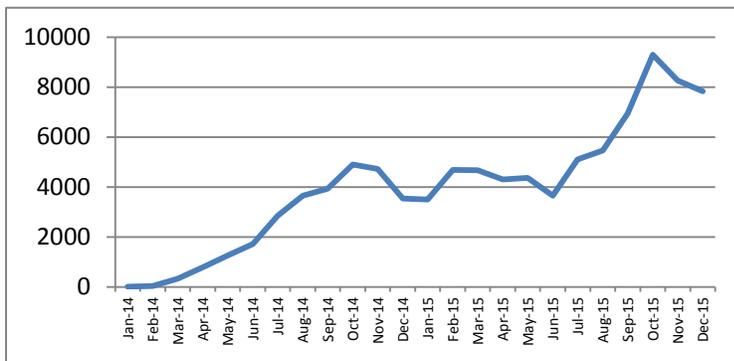
time, and with assistance from USAID BRITE, MCS has clarified the functional aspects of lodging electronic declarations and has launched several communications and outreach efforts to raise awareness among the trade.

As Figure 1 shows the effect of introducing e-export declarations created a boost in the demand from the economic agents and customs brokers. The uptake increased steadily each month for the

first year reaching a peak of 45% of all export declarations before settling just below this level in the third quarter of 2015. In the last quarter of the year, the number of e-Export declarations rose substantially and now account for close to 90% of all exports.

The E-import declaration has enjoyed a much less impressive debut; however, currently there is a positive trend and more and more economic agents are switching to presenting electronic import declarations. These now average slightly over 10% of all import declarations. Export procedures are perceived by the economic agents to be simpler and this could explain why the electronic export became popular shortly after implementation. However, it is still questionable what would be the “limit” on the increase in the share of e-declarations for both imports and exports. We could expect to have a peak for e-import usage after a year, like for the export, however, this is not a proven rule.

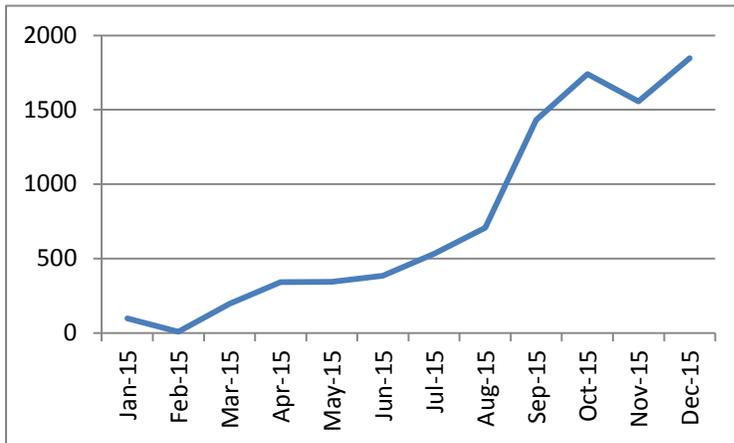
Figure 2: Evolution of e-Export declarations (2014-2015)



While we would expect a certain upper limit on the uptake for electronic declarations there were concerns about why e-Export had plateaued and e-Import has been slow to take off, remaining far below expectations, particularly when the benefits of using both seem obvious. In fact, at the time these facilitation measures were introduced MCS and

BRITE developed outreach material that identified the main benefits to economic operators.

Figure 3: Evolution of e-Import declarations (2015)



These included:

No need to transit through an ICP

1. Time savings
2. Lower transport and logistics costs
3. No contact with customs inspectors except at the BCP
4. The customs seal is optional.
5. Ability to choose any BCP for export

Less paperwork

6. Electronic submission of all required documents from trader’s premises
7. Electronic archive of documents instead of paper documents
8. Data are more secure, as they are stocked in ASYCUDA.
9. Electronic data exchange between institutions
10. Efficiency – more declarations could be filled in the same amount of time as before.

Faster customs clearance

11. Fewer procedures at BCPs leads to less time spent there
12. Ability to lodge declarations anywhere 24/24; more flexibility and certainty in meeting export orders
13. Customs procedures are closer to modern standards.

To shed light on this, BRITE posed several questions to economic operators as part of its annual survey of businesses, and as part of a targeted survey of the 100 largest importers and exporters in Moldova, a group that presumably would benefit the most from using electronic declarations. The findings, while not identifying a single cause, are nevertheless revealing and help identify possible solutions.

Customs brokers – the bridge between companies and customs procedures

The 2015 BRITE Private Sector Survey confirmed the presumption that the vast majority of economic agents use the services of a customs broker to perform customs procedures. Table 1 shows that only 11% of importers and exporters clear goods on their own, while 80% rely on customs brokers. The proportion is largely the same regardless of the size of the company. This result has important implications for implementing customs reforms and facilitation measures. On one hand, it reveals that the Customs Service could more easily promote some reforms such as the electronic customs declarations with the help and support of customs brokers. On the other hand, some businesses may not be aware enough about changes in customs legislation and procedures to request them from their customs brokers.

Table 1: As a rule, does your company carry out clearance operations through a customs broker? %, N=399

Category		Never	Always	Sometimes
Foreign trade activity	Importer	9.4	83.6	7.0
	Exporter	18.8	64.6	16.7
	Importer and Exporter	13.9	78.5	7.7
Size	Micro	12.7	75.4	11.9
	Small	10.2	80.7	9.1
	Medium	12.5	87.5	0.0
	Large	10.4	87.5	2.1
Total		11.3	80.5	8.3

The survey also revealed a high degree of awareness of the e-Customs initiatives, and both importers and exporters named the introduction of the electronic declaration as the main reform implemented by the Customs Service in the last year.

The respondents from the BRITE Private Sector Survey who use the e-export procedure were asked about their perception regarding the most important benefits from the above list. The scope was to identify how the exporters perceive the promoted benefits of e-export declaration. As a

result, the most recognized benefit is less interaction with customs inspectors which was confirmed by 86.2% of respondents. This is supported by several aspects of e-declarations:

- Since May 2015, MCS requires only three primary documents for export/import;
- MCS is not requesting any additional documents besides those that were attached to E-declaration (all requests are saved (archived) and may be appealed in court);
- MCS is not making more unjustified requests to the declarant (other request besides additional documents e.g. – physical verification of green lane cargos).

Also, 81.4% of respondents agreed that their company saves time in preparing and filing the electronic export declaration. As a result, the cost of such declarations is much lower for the broker and his clients (over 50% cheaper). The optional application of the seal was rated as the least noticeable advantage. Only 57.6% of respondents said that this procedure is an advantage over the previous method. Thus, not all the promoted benefits are really perceived by the private sector, but increased transparency, faster submission, and time and money savings are benefits most companies agree they receive from using e-Export declarations.

1. Why companies don't use e-Export procedures?

According to BRITE's survey of the top 100 importers and exports, about one third of the top exporters are not using e-Export declarations. The main technical impediment at that time seemed to be the inability to lodge e-declarations when exporting in "groupage". Groupage is the consolidation of cargo from more than one shipper and/or to more than one consignee into a single shipment. MCS state that this poses risks for smuggling and have not allowed it for e-Export.

BRITE's study indicated that less than 40% of big exporters ever use groupage, and if they use it, it is usually for less than 20% of their volumes. We might assume, therefore, that some companies, faced with the need to present both electronic and paper declarations, might prefer presenting only on paper.

Another identified barrier was the legal impossibility to use E-declarations for some types of exports. For example, now it is not allowed to use E-Export for exports from free economic zones, warehouses, or for export of goods after inward processing and other suspense regimes. Another problem mentioned by some exporters was the inability to modify or adjust an E-declaration in the same paperless procedure. So, in case of eventual mistakes in E-Export declarations, these are usually observed by BCP-customs and a truck with such goods cannot exit the country until the declaration is corrected manually.

According to the BRITE Private Sector Study 2015, small exporters, in general, are not interested in using e-export declarations, as they don't export very frequently. Some exporters consider the lack of capacity, lack of information, or even unwillingness as reasons for not using e-Export declarations.

However, as 80% or more of exporters use the services of customs brokers, any non-technical impediments could be eliminated and the usage of e-Export declarations boosted. Even the need of the digital signature wasn't mentioned as an impediment in any of BRITE's studies, as the customs broker's digital signature is sufficient.

As the data from the final quarter of 2015 indicate, the majority of export declarations are lodged electronically. Anecdotal evidence suggests that MCS have mostly mandated electronic submissions from brokers and have resolved most of the issues identified in the survey.

2. Why companies don't use e-Import procedure?

The e-Import procedure was fully implemented on March 1, 2016, yet as of September 2015, less than 10% of import declarations were presented electronically. Given that imports far outweigh exports, and thus present more cost saving potential, one would assume more interest in lodging import declarations electronically. However, by the end of 2015 only about 10 percent of import declarations were lodged electronically. BRITE's surveys have attempted to address this anomaly and identify the reasons companies are not taking advantage of this service.

In general, many companies, especially those who don't frequently import, either don't know about this procedure, or would need more information and training in order to use it. This would indicate that part of the problem is either a lack of, or misdirected communications and outreach on the part of the Customs Service.

Regarding the top importers, one quarter of them actually use e-Import declarations, which is three times more than the national average. Of the remaining large importers the three main reasons mentioned for not using e-Import declaration are:

- Importing in groupage. This is the same situation as for the exporters. The economic agents cannot make e-import declarations for goods imported in groupage. Also, 47.1% of importers work with groupage, which is more than in the case of the exporters. However, the share of volumes imported in groupage is also about 20% of the total.
- Certain shortfalls in the system for submitting the electronic import declaration. Many economic agents complained about various technical problems when working in ASYCUDA while submitting e-import declarations.
- The reform was only recently implemented, and the company hasn't decided yet whether to use it or not.
- E-Import declarations must be lodged one hour before the truck arrives at the BCP, so a declarant has to have all necessary documents in advance. This eliminates the possibility to preliminarily verify the data presented by the shipper before submitting a final declaration. According to Moldovan Customs law, any discrepancy in the documents lodged and the actual shipment itself can result in a "non-authentic declaration" and result in penalties and fines, which further discourages the use of e-Import

Other reasons cited, but still important, are:

- The necessity to present a transit declaration simultaneously with the E-Import declaration, which currently can only be presented in paper form.
- Goods subject to the ecological tax still require a paper payment document
- Need for more information about the procedure for both – Customs inspectors and business representatives.

3. E-customs declarations benefits for private sector

Based on the quantitative and qualitative data from the BRITE timing studies and surveys, and data provided by the Customs Service we can estimate the positive impact E-Customs is having on both economic operators and Customs. By our estimation, e-Export alone accounts for USD 8.5 million annually (at an uptake of 40%), mostly by eliminating the need to visit the inland terminal, lower transportation and other logistics costs, and faster clearance. If we assume the same level of impact, then for every 10% increase in the number of e-Export declarations traders save another USD 2.1 million annually. It should be noted that one benefit that cannot be adequately measured is the increase in certainty provided to exporters who now have more confidence in their ability to get their goods across the border and meet their commercial commitments and delivery times, which can far exceed the savings in direct costs.

The benefits from using e-Import procedures could be even larger, as there are more import declarations and generally, importing procedures require more time and expenditure, thus there is a huge potential for reducing them. At current levels, we estimate a 1.8 million USD savings for the private sector, but as e-importing gets more popular, the benefits will increase.

Increasing the Use of E-Customs. Recommendations for MCS

As the benefits of E-Customs to both the private sector and to MCS are clear and measurable, and MCS is committed to increasing its use, several actions could be taken that have the potential to increase the uptake of e-declarations significantly. Most of these require only internal decisions of MCS, so they could be implemented immediately.

1. Provide customs officers with the procedural mechanism to allow for electronic declarations when importing in groupage. Whether declarations are submitted in paper form or electronically should not necessarily alter how customs controls are applied. Therefore, simple instructions to front-line officers should suffice. Based on survey data of volumes imported in groupage, we can expect a possible increase in the use of e-Import to about 20% of the total.
2. Eliminate the mandatory requirement to present e-Import declarations one hour before the truck arrives at the BCP. This provides no specific benefits for MCS but creates a number of inconveniences for the declarant. Again, based on survey data, eliminating this requirement could increase the use of e-Import up to an additional 15%.
3. Abolish the necessity to present a transit declaration simultaneously with the e-Import declaration.
4. Support changes to Government Decisions to implement e-Transit, which would allow for e-export from FEZs and various suspensive regimes.
5. Develop more targeted communications and outreach tools. Greater emphasis should be placed on the largest importers and exporters by volume and on customs brokers.

II. AEO Program in Moldova

1. General Aspects

AEO programs are defined as customs-to-business partnerships that identify and reward businesses that comply with WCO SAFE or equivalent standards for supply chain security. Such programs are mutually beneficial as they facilitate trade across borders, encourage voluntary compliance, and allow customs officers to focus their attention on higher risk consignments. An

AEO is considered a trusted economic agent regarding customs procedures. This status provides a series of benefits in Moldova. Among them:

- Reduced number of inspections
- Inspections on risk criteria are made with priority
- AEOs can choose a place for the customs inspection outside customs posts.
- AEOs have access to various simplified customs procedures.
- A dedicated lane at BCPs for AEOs.
- Customs clearance can be made at a place indicated by the AEO.

In Moldova, AEO status is typically granted to companies that have a history of compliance, are not in debt to the state, are financially solvent, and that utilize a trade management and transportation system that ensures compliance with customs rules and procedures, facilitates customs inspections, and ensures supply chain security of the goods.

The legal framework that covers AEO status includes:

- Sections 27 and 28 of the Customs Code, Law nr. 1149-XIV from July 20, 2000
- Government Decision nr.647 from August 7, 2014 regarding enforcing the implementation of the sections 27 and 28 of the Customs Code
- Customs Service internal order nr.483-O from November 13, 2014 regarding approving the methodology behind verifying the applications for AEO status

2. Applying for AEO status

Although currently MCS encourages any economic agent to apply for the AEO status, the best result can be achieved if larger traders would obtain this status. It stands to reason that MCS should strive to create a partnership with its largest traders and ensure their compliance, while those same traders would benefit the most from the facilitation provided by the AEO designation, and thus strive to maintain it. This approach is similar to the Large Taxpayer Office established by the State Tax Service. At present, very few of the largest importers and exporters in Moldova are designated AEOs.

The BRITE survey of the Top 100 Importers and Exporters explored this issue in more detail by asking traders about their awareness of the AEO program, knowledge of requirements and benefits, participation or not, future plans, etc.

A total of 137 companies were surveyed. Of those, 36, or 26.3%, indicated they held AEO status. Twenty two companies, or 61% of those with AEO status, had previously been granted simplified procedures by the MCS, and thus received AEO status without going through the formal application and assessment process.

The share of companies that believe the procedure for obtaining an AEO status is easy is rather small - 27.8%, with most of them describing it as neither easy nor difficult - 55.6%. Very few have deemed the procedure as difficult - 8.3%. Referring to the complexity of the self-assessment questionnaire, the answers were similar: 27.8% believe that the questionnaire was easy to fill in, 52.8% - that it was neither easy nor difficult and 13.9% - that it was difficult. In either case it is possible to improve the procedure, given that the level of satisfaction is rather average.

Companies that do not have an AEO status were questioned as to why they have not applied or do not hold this status. The most common explanation was that the company did not meet the AEO criteria (24.8%). Some companies have no knowledge about the AEO program (16.8%). Other companies said the benefits are not important (14.9%). Several companies said they are already enjoying certain benefits that such a status would offer and obtaining it would not bring considerable additional benefits (13.9%). 13.9% of respondents that do not have an AEO status said they had commenced the procedure or planned to file for the status in the near future. More than half of respondents (55.5%) perceive the AEO awareness level as satisfactory. Only 11.7% said they were never informed by the Customs Service about this possibility but 18.3% said the information is insufficient and/or unsatisfactory.

Asked about their opinion on improving the AEO status by adding other benefits, most respondents mentioned a better awareness (20.4%). Among other potential advantages was the exemption from certain payments (18.4%). A number of respondents want more declarations passed through the green lane (4.1%) or that the list of companies benefiting from this status be extended (2.0%).

According to the 2015 BRITE Private Sector Survey, which included 405 companies engaged in trade, of the companies that do not have AEO status, 38% expressed an interest in applying, 33% consider AEO status does not provide enough benefits to make it attractive, and 29% consider they do not meet the minimum requirements. As most importers and exporters have small trading volumes, they are less interested to get this status, and should not be targeted for such by the Customs Service.

Qualitative research

The survey of the Top 100 exporters and importers also included several qualitative questions and responses, and other comments. Some of the most common are included below.

- We have applied for an AEO status and our application was denied, we believe - wrongly. We believe the process is not transparent.
- We have not encountered difficulties on import/export processes. However, our company does not meet the AEO criteria.

Questions and Answers (selection):

Question: Why do you find the procedure to obtain an AEO status difficult?

Response: Because this procedure is directed towards the trade with European countries.

Question: Why do you not hold an AEO status?

Response: We do not think it is favorable to invest great effort to achieve this status, because our goods are mostly imported from countries outside the EU.

Question: You have mentioned that you trade in several European countries. Why are you not interested in having an AEO status?

Response: There are too many requirements from Customs, but as long as our partners trust us, they create favorable conditions for us to export.

Question: Are you satisfied with the advantages offered by the AEO status?

Response: Yes, we enjoy several benefits at border crossings and solve problems faster, especially due to Customs Service officers controlling the situation and intervening promptly.

Improving the AEO Program in Moldova

Based on the survey results it appears the AEO program in Moldova could be better targeted and within that target group, better publicized. At the same time, the benefits should be expanded to the extent possible in order to make the program more attractive, especially to high-volume traders. For example:

- Fully implement simplified procedures (e.g. simplified declaration, incomplete declaration and local clearance).
- Allow AEOs delayed payment of duties and taxes to allow for immediate release of cargo, including ecological taxes.
- Implement the approved consignee/consignor as well other simplifications for the transit regime, and make them available to AEOs.
- Negotiate a number of AEO Mutual Recognition Programs