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**A Critical Analysis of the Kosova Customs Service Process and Procedure: Internal Customs Clearing; Opportunities for Increased Efficiency and Regional Success**

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## **1. ABSTRACT**

If one were to ask if re-engineering various systems and procedures of the Kosova Customs Service would be in the service of government of Kosova, the service itself, the broader local, regional and international business community, and the general population as a function of a national strategy designed to bring Kosova closer to European Union Standards the answer to that question would be a simple yes.

The more precise question needs to identify specific process and procedure, and in this regard the question then becomes has the time come for the Kosova Customs Service to implement Internal Customs Clearance procedures? And, if so we must then analyze why the implementation of this procedure has not occurred sooner, identify the benefits, and finally by proposing how the internal customs clearance process can be implemented we can also identify efficiencies.

What is internal customs clearance? In the most simple form internal customs clearance is a customs procedure that does not restrict importers to clearing customs only at customs terminals at border crossing points, rather by using pre-existing Customs infrastructure and more public customs warehouses importers can decide where and when they will clear customs, in strict compliance with all applicable rules and regulations, throughout the territory of Kosova.

Based on International Management theory and practice studies in the UBT International Engineering Management Masters program and combined with field interviews and experience this thesis will argue that implementing such a procedure is possible and would contribute to a contemporary, functional, and regional customs regime aligned with regional policy and trends in support of Kosova's EU aspirations.

## 2. INTRODUCTION

*“The key purpose of the management of the Customs Service is to achieve the organization’s aims and objectives and continuously improve its performance. Operational management is a complex business requiring a range of skills and knowledge, together with disciplined time management .... Operational management is about being clear about what they are expected to deliver; designing systems and procedures; and organizing the workplace to achieve this.”<sup>1</sup>*

*- Mr. Paul Acda*

*Former UNMIK Customs Service Director*

Has the time come for the Kosova Customs Service to begin the implementation of Internal Customs Clearance procedures? Why has the implementation of this procedure not occurred given that all neighboring countries to include Albania, Montenegro, Macedonia, Croatia, and Serbia all process imports, exports and transit in this manner? Can we implement this procedure by updating pre-existing Customs infrastructure, process and procedures which are now all improved by advances in technology thus perhaps even inspiring modernization efforts for our neighbors? What would the advantages be, are there mechanisms to measure efficiencies and finally how could an updated Internal Customs Clearance process can be implemented in Kosova?

By definitions Customs is: “The Government Service which is responsible for the administration of Customs law and the collection of duties and taxes and which also has the responsibility for the application of other laws and regulations relating to the importation, exportation, movement or storage of goods...

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<sup>1</sup> This quote, made in his previous capacity as UNMIK Director General of Customs, can be found in UNMIK’s “Strategic Operating Framework 2006-2008”

This term is also used adjectivally in connection with officials of the Customs, duties and taxes or control on goods, or any other matter within the purview of the Customs officer, Customs duties, Customs office, Customs declaration.”(World Customs Organization 2006 pp7)

The Kosova Customs Service is the newest in the region and because of this fact it is also the Customs Service with the greatest amount of opportunity because it can design and implement processes and procedures that are modern and enhanced by technological advances which in the final analysis set the conditions for a more efficient customs service, provide local businesses a more competitive environment, and should also attract much needed foreign investment.

In the case of Kosova implementing Internal Customs Clearance procedures is a good start and based on International Management theory and practice studies in the UBT International Engineering Management Masters program this thesis will argue that implementing such a procedure is possible and would contribute to a contemporary, efficient, and regional customs regime aligned with regional policy and trends<sup>2</sup> in support of Kosova’s EU aspirations.

One must recognize that the introduction of Internal Customs Clearance procedures alone will not result in raising the efficiency and effectiveness of this government agency. Therefore this analysis is not exhaustive in that there are a multitude of possibilities in terms of structural, managerial, technical, and policy re-engineering the Kosova Customs Service can and should undertake.

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<sup>2</sup> While this thesis will not focus solely on international and or regional policy initiatives, for the purposes of this work EU Integrated Border Management (IBM) policy will be referenced. For a detailed background on IBM please see: “Kosova National Integrated Border Management Strategy” The National Integrated Border Management Strategy, prepared by the national IBM coordination mechanism in Kosova, with the Technical Assistance from the EU provided through European Agency for Reconstruction Project 05/KOS01/09/01 which can be viewed on-line via: [http://www.eupt-Kosova.eu/training/police/PoliceTraining/BORDER\\_BOUNDARY/DOCUMENTS/4.pdf?page=agreements](http://www.eupt-Kosova.eu/training/police/PoliceTraining/BORDER_BOUNDARY/DOCUMENTS/4.pdf?page=agreements)

This work is in large part the result of close to a decade of service as a Senior Customs Officer having served at various Customs Points throughout the territory of Kosova responsible for many customs procedures that form a broad spectrum of field experience.

In this capacity and since beginning the UBT Masters Program I have been an observer participant in my field affording me the privilege of providing the reader direct or firsthand field research combined with a select cross section of secondary research in the form of field specific and related literature that will be cited accordingly.

Given the current political complexity that surrounds Kosova there are a number of caveats or qualifications that must be noted.

The political ambiguity of the moment will certainly continue to play a critical role in terms of the continued development, management and administration of the Kosova Customs Service<sup>3</sup> in post conflict Kosova.

In this regard this study will refer to the Customs Service as the Kosova Customs Service. We will avoid as much as possible political discussions since the focus of this thesis is re-engineering a specific customs procedure, however in those instances where some political discussion is necessary we will attempt to provide political clarity by using footnotes.

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<sup>3</sup> The official name of the Customs Service nominally remains UNMIK Customs Service; however in light of Kosova's declaration of independence on 17 February 2008 and the recent transfer of competencies from UNMIK to the Government of Kosova the service is called Kosova Customs. What approach EULEX will have in this regard remains to be seen. Currently the Customs Code of the Republic of Kosova has been presented to Parliament.

The reader must recognize that at the time of the writing of this thesis the United Nations Interim Administration in Kosova (UNMIK) is currently undergoing a mission reconfiguration in light of Kosova's recent declaration of independence whereas a follow on mission led by the European Union (EULEX) has yet to fully deploy.

The Government of Kosova has taken over Customs competencies and EULEX will certainly play a great role in the field of customs in that customs falls within the European Union mission Rule of Law mandate.<sup>4</sup> This thesis will address this subject only superficially in the historical overview section of this work.

With that said, the necessity for the implementation of Internal Customs Clearance procedures, must be understood to be equally as appropriate at this time in a combination of scenarios that include:

1. Had Kosova's declaration of independence not been made and the Customs Service was still under UNMIK,
2. Whether or not EULEX is fully deployed, and
3. Even if the government of Kosova were truly independent with no international mission with a customs mandate.

Contemporary European Union customs procedures, which allow for internal customs clearing, should be seen as a national strategic goal for Kosova in all three scenarios and therefore implementation is appropriately timed.

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<sup>4</sup> According to the EULEX: "The EULEX Customs Component will monitor, mentor and advise the service and will only exercise, when needed, customs law executive responsibilities in mixed teams of international and customs service personnel. EULEX will also co-operate with European Community programs on customs.... to assist the Kosova customs service in its progress towards sustainability and accountability and in further developing and strengthening a multi-ethnic customs service, free from political interference and adhering to internationally recognized standards and European best practices. The website can be accessed at: <http://www.eulex-Kosova.eu>

Additionally, the political and security complexity of Northern Kosova, or what is most frequently referred to as the Mitrovica region, will not be addressed in this study. This political, security, and administrative reality will continue to pose great challenges to the government of Kosova and the surrounding region and certainly will provide future academics and practitioners with an extensive problem set to investigate and prescribe.

In this regard the assumption is that, all things considered, Internal Customs Clearance procedures are equally as applicable at those gates as any other because we are not investigating point of entry, but rather a customs procedure that can occur internally at pre-existing customs terminals and public and private warehouses located throughout the territory of Kosova regardless as to which border crossing point of entry was used.

### **3. BRIEF HISTORY OF THE CUSTOMS SERVICE IN KOSOVA**

One could say that with the end of the war came the beginning of a new life for Kosova. And, with this new life came many challenges. Kosova was fortunate in its misfortune.

Yes, it was unfortunate that we experienced a war, but we were very fortunate in that starting over meant that we would begin developing new institutions that could benefit from the latest technology and with the assistance of international experts in many fields. For those of us that decided to go into the field of the Kosova Customs Service it was our hope that this fortune in our misfortune would make Kosova a regional leader.

The United Nations Interim Administration Mission in Kosova (UNMIK) began its mission in Kosova in June 1999 mandated by United Nations Security Council Resolution 1244 (UNSCR 1244). Because of the war there were no functioning administrative institutions at all. There was no customs service either.

In June 1999 there was an urgent need to establish a customs administration as a fundamental and critical instrument for the state. In post conflict Kosova the need for a customs service became greater and greater each day because goods were entering the territory without any sort of controls.

The result was not only a failure to collect import revenue; there was no way to stop restricted or dangerous goods from entering or transiting through Kosova and there were no physical or veterinary health and safety inspections of goods posing a threat to public health and safety. Such a situation put the population at great risk.



The UNMIK customs service was established under the pillar system UNMIK used to organize the different components of its mission. Customs fell under UNMIK Pillar IV, the European Union (EU) pillar, established by UNMIK regulation no. 1999/3 in August 1999. This EU Pillar provided three professional Customs Senior Managers from various EU Customs Services with executive authority acting as Director General, Deputy Director General and Director of Enforcement.<sup>5</sup>

Because the UNMIK mission was designed to be temporary in nature, the intent was to gradually transfer competencies to local authorities. In the case of the Customs Service on 1 April 2007 Executive Powers were fully transferred to Kosovar officials by UNMIK. Before 1 April 2007, Customs was under the Executive Authority of UNMIK.

According to UNMIK, the Customs Service is responsible for ensuring the correct and uniform application of customs rules, and where appropriate, other provisions applicable to goods that are subject to customs supervision. In this regard the Customs Service is the institution that, among other responsibilities, collects customs duties, value added tax and excise tax which form a large contribution for the Kosova Consolidated Budget.

While many could complain that UNMIK was not effective and efficient in terms of Civil Administration, in terms of Customs Administration UNMIK together with local authorities was very successful. According to UNMIK, in 2006 the Customs Service collected 456,000,000 Euro which represented approximately 64% of the Kosova Consolidated Budget. In that same year, the Kosova Tax Administration collected only 164,000,000 Euro or 23% of the Kosova Consolidated Budget. The

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<sup>5</sup> A more detailed outline of the development of UNMIK Customs in Kosova can be viewed at their official web-site: <http://www.unmikcustoms.org>

Customs Service consistently contributed the most to the budget and remains fully funded by the Kosova Consolidated Budget today employing close to 600 customs officials.

The Customs Service was to be built along EU standards. Technical support was provided by the European Commission Customs and Fiscal Assistance Office (CAFAO) originally called the Customs Assistance Mission Kosova (CAM-K) which focused on the development of legislation, organizational and structural development and training and developing the Customs staff.

In the beginning CAM-K identified 35 Kosova Albanian customs officers which were previously employed by the former Yugoslav customs administration and negotiated with them a start date. The first border crossing point was at the Hani I Elezit, and later on 23 September 1999 the border crossing point at Vermice opened.

It was a great challenge to handle the flux of goods with such a small staff. What further complicated matters for the Customs Service was that in 1999 there was no Kosova Police Service, banks were not functional and all customs duties had to be collected in cash.

Although there was great political confusion about Kosova's status the UNMIK Kosova Customs Service, according the United Nations Security Council Resolution 1244, identified Kosova as a single customs territory.

The only distinction concerned two types of borders:

1. International Borders such as those with the Republic of Albania, the Former Yugoslav Republic of Macedonia, and
2. Administrative Boundary Lines such as those with Serbia and Montenegro which were favored.

What this meant in practice was that there was 0% customs duties collected on the Administrative Boundary Line because it was not treated as a full “border”. This was a political necessity.<sup>6</sup>

There was no Customs Code so knowing which legal regulations were applicable became a complicated and confusing matter. The decision was made to use the pre-war Yugoslav Customs Code in combination with the administrative directives formulated by CAM-K Customs Management, whose mission was fiscal in nature.

This created a very confusing situation where the local Kosova and regional business community had to be constantly educated about evolving rules and regulations. The focus of the mission was at first fiscal – to collect duties and did not focus as much on enforcement and safety. This fiscal focused policy was often criticized for both practical and political reasons.

UNMIK Regulation no. 1999/3 on the Establishment of the Kosova Customs Service established customs tariffs on all goods at a rate of 10% with the exception to goods originating in Serbia and Montenegro, which as mentioned previously, were not

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<sup>6</sup> Although UNSCR 1244 recognized Kosova as a single customs territory and retained administrative “rights” over Kosova, the issue of FRY sovereignty created the practical necessity to not treat the administrative boundary line as a border.

taxed. The Former Yugoslav Republic of Macedonia (FYROM) retained a preferential trade arrangement from 1% on goods with a FYROM origin which was inherited from the pre-war administration.

Aside from collecting customs duties the UNMIK Customs Service was also responsible for collecting Value Added Tax (VATT) that was set at 15% and Excise Taxes. All duties and taxes were collected at border crossing points due to the post conflict security situation.

In reality, the situation was greatly challenged by both a lack of clear legislation and a lack of available and trained personnel. This environment made smuggling commonplace. "Kosova's need for imported goods was great, close to 500 transport vehicles would enter a day and they could not possibly be inspected by 6 customs officer on shift" (Ylber Rraci, 2003).

Because of UNMIK policies a concern that the Customs Service would become an obstacle to economic development emerged. Some of these policies were seen as detrimental to Kosova. For example, the establishment of a single duty scale of 10% for all raw materials imports negatively impacted local development. The focus on the fiscal aspect ignored the need to stimulate local production by the development of better economic policies.

With that said a distinct feature for the Customs Service was that this institution was established and run primarily by local staff and did not require bringing international customs officers from the surrounding region. Internationals were put only in senior management positions.

This was not the case with other post war institutions in Kosova. For example the police and civil administration was problematic because the different international officials often applied the rules, regulations, techniques and procedures of their native country which often were not uniformly applied everywhere the same.

At the time, the Customs Service was most fortunate that the senior international advisors came from very developed countries with very advanced customs systems such as the United Kingdom (the international Director was from the United Kingdom). Because of this the Kosova Customs Service would inherit these advanced techniques, procedures and systems in a way very different from their neighbors.

By the end of 1999 as part of the ongoing consolidation of the customs administration an additional 60 Customs Officers were hired which were sent to the field immediately. They lacked adequate training. This practice continued for some time until various sectors were established in order to recruit and train new cadets appropriately. Customs personnel was and remains very diverse comprised of 80% Kosova Albanian and 20% minorities. Statistically, Kosova's population is comprised of 10% minorities and so the Customs Service hires more minorities than what they statistically represent demographically.

In May of 2002, when I was accepted as a Customs Officer in the UNMIK Customs Service, I found a good base of organization relative to the conditions at the time. Personnel had achieved a corps of 350 officers and a general management infrastructure with great potential for continued improvement. Each year the Customs Service collected and contributed the most to the Kosova Consolidated Budget. The below income comparison shows how each year's achievements surpassed projections. The table is based on statistics that can easily be found at

either the Customs Service, the Ministry of Finance and often times published in local media. Clearly, the rate of increase was impressive.

*Tab.1 Revenue collected by the Kosova Customs Service.*

<b>Year</b>	<b>Income from Customs</b>	<b>Monetary unit</b>	<b>Increase revenue</b>	<b>Remarks</b>
<b>1999</b>	<b>30,269,494</b>	<b>DM</b>		<b>From 3 sep.'99</b>
<b>2000</b>	<b>228,000,000</b>	<b>DM</b>	<b>Over 100.00%</b>	
<b>2001</b>	<b>484,000,000</b>	<b>DM</b>	<b>112.29%</b>	
<b>2002</b>	<b>365,000,000</b>	<b>EUR</b>	<b>50.83%</b>	

In order to develop a positive image of the Customs Service, to be transparent and to ensure that information was easily accessible for various trade/interest groups and the average citizen alike UNMIK Customs launched an official website and began the monthly publication of “Informatori Doganor.” These steps were part of a larger effort to continuously improve the service.

A very important improvement in the realm of legislation came on 1 March 2004 when the Kosova Customs Code was approved. The code was designed to be compatible with EU legislation. Simultaneously, the implementation of better economic policies began in 2004 via more comprehensive administrative guidance and regulations. Procedures that had long been standard in form, began to have positive economic effects locally and regionally. It was in this year that the preferential trade agreement with FYROM on free trade with Kosova as a single customs territory was signed followed by a similar trade agreement with the Republic of Albania.

Additionally in 2004, and from my perspective, I saw it as a great achievement when Electronic Data Processing (EDP) was introduced. The Electronic Data Processing system introduced in Kosova was called TIMS, Trade Information Management System which was adapted for Kosova Customs, in September 2004.

According to the Customs Modernization Handbook:

Trade Information Management System (TIMS) is a product of Crown Agents. It is a software package aimed at supporting and sustaining efficient day to day operations of a modern customs department and consists of a full declaration system as well as a standalone or integrated support modules. The declaration system includes the usual modules, such as manifest handling, and acquittal, data entry, tariffs management, receipt and validation of Single Administrative Documents, accounting, and trade and revenue reporting. The stand alone or integrated modules include intelligence handling systems, risk management, price referencing support in accordance with GATT regulations, transit control, exemptions management, and management information. The system is modular in design. It can be installed gradually or some modules can be used in combination with other customs management systems. The system can be implemented in environments limited or advanced levels of communications capability and can grow to maximize the benefits as more sophisticated technology becomes available... All TIMS functions are structured using local and central (or regional) modules with EDI facilities allowing the transfer of data. (Luc De Wolf and Jose B. Sokol , pp 300-301, 2005)

This system was constantly updated in order to be compatible with new innovations in the field and formed the basis of data collection for the Customs Service. It was the use of modern information technology that made the Kosova Customs Service a regional leader.

In 2004 another change was made in terms of clearing procedures that presented the Customs Service with a challenge. The way goods were valued changed. The change was necessary in order to be compatible with EU regulations and in order for the TIMS system to be fully implemented. The valuation of goods process no longer required inspectors to physically inspect the goods. The Customs code provided for a valuation system built on 6 standard valuation methods which allowed for up to 70% of goods to be appropriately valued.

The International Harmonized System for Goods classification initially used in Kosova was replaced by TARIK – or the Integrated Kosova Tariffs in September 2005. This tariff system was constantly improved upon in a manner that was consistent with economic policy and procedures requirements.

According to the Economic Initiative of Kosova:<sup>7</sup> “TARIK, a 1,300-pages-book, is a legally established guideline for everybody involved in import and export into or from Kosova. ... TARIK includes a ‘Goods Nomenclature’, meaning the codes and descriptions of all different goods... comprises a schedule of rates and measures which apply to the importation and exportation of goods, such as requirements for the Statistical Office of Kosova, customs duties, import and export trade policy measures, preferential rates of duty (FTAs), VAT and Excise rates. TARIK is based on an international and a European system of customs tariffs, namely on the “Harmonized System of the World Custom Organization” (WCO) and the “Combined Nomenclature” of the European Union. Therefore Kosova’s Customs Tariff becomes compatible with the European Union and all member states of the World Customs Organization, which is a big advantage for international businesses trading with Kosova.” (EICKS, 2005)

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<sup>7</sup> EICKS is a non-for-profit organization founded in April 2003 in Vienna, Austria whose main goal is to support a sustainable long-term economic development of Kosova and the regional economic cooperation. Accessed on 7 January 2009. <http://www.eciks.org/english/index.php>



Also in 2005 the Excise Code was approved and tax and excise norms were applied as per regional development policies.

This rhythm of development continued with the signing of various trade agreements which required that the Customs Service be capable of full implementation of those agreements. It was the Central European Free Trade Agreement (CEFTA), signed in 2007, that was witness to the effective and efficient management efforts of the Kosova Customs Service because implementation commenced without complications. Comparatively, regional states are still experiencing problems with CEFTA implementation due to customs processes and procedure incompatibilities.

In 2007 the UNMIK Customs Service was “Kosovarized” and Naim Huruglicia appointed as the Director General, a post previously reserved for an international under UNMIK pillar IV.

With Kosova’s declaration of independence on 17 February 2008, Kosova now enjoys internationally recognized borders and as far as Kosova is concerned there no longer exist any administrative boundary lines. For a period of about 9 months Customs officials did not have a distinguishing emblems on their uniform, however this year this issue was officially resolved when the Ministry of Finance re-named the customs service Kosova Customs.

*Fig. 2 Kosova Customs Service Emblem*



Finally, by the end of 2008 the Kosova Custom Code replaced the UNMIK Customs Code, Excise Code and other previous UNMIK administrative directives and regulations making for a fully functioning Kosovar Customs Service.

## 4. THE KOSOVA CUSTOMS SERVICE TODAY

The Kosova Customs Service is Kosova's most successful institution. Other than consistently exceeding budget projections, the Customs Service is now fully capable of managing itself which in turn allows for a level of admirable transparency.

When I asked the Director General of the Kosova Customs Service what distinguishes the Kosova Customs Service from the others his response was<sup>8</sup>:

*“When compared with other customs administrations in the region, Kosova Customs is the youngest. Kosova Customs is a unique case as it was created based on the political decision of the United Nations and not as national customs administration. Until 2007, the management was under the responsibility of international staff and not national staff as is the case with other customs administrations in the region... being created by the international community, everything has started from zero and done according to the best practices of EU countries. While other customs administrations in the region have spent a lot of energy on the “transformation process” Kosova Customs from the very beginning has applied legislation and procedures within broader EU legislation and procedures.”*

Today, the mission of the Kosova Customs Service<sup>9</sup> is wide-ranging, starting with the security of the state, economy and its citizens. The mission of the Kosova Customs Service can be divided into two main categories.

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<sup>8</sup> I conducted a series of interviews with the Director of the Kosova Customs Service from December 2008 to January 2009.

<sup>9</sup> Please see the official website of the Kosova Customs Service for additional information: [WWW.dogana-ks.org](http://WWW.dogana-ks.org)

1) Contribution to Economic Issues

- Collecting customs duties: such as customs duties, value added tax, and excise tax for Kosova's consolidated budget
- Import and export inspection, economic protection, trade mark protection etc.
- Accurate foreign trade statistics

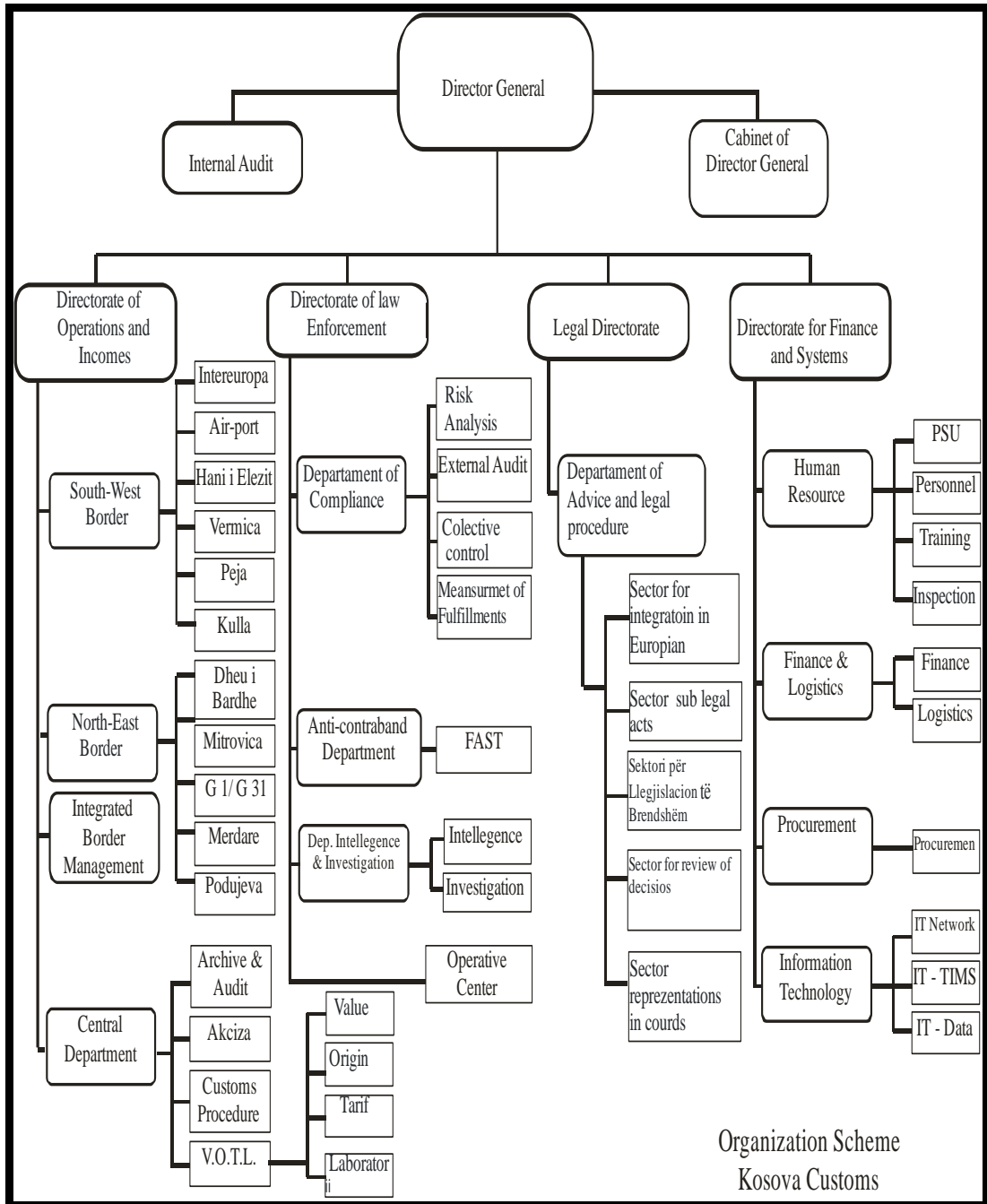
And

2) Contribution to Security

- The fight against illegal activity
- Increase security via presence at border crossing points, fighter cross border crime, drug trafficking etc.
- Public and environmental protections, preventing smuggling of weapons and explosives"

The Kosova Customs Service organogram shows us that the organization is solid in terms of the various departments and sectors. The personnel are well trained and although they have relatively less experience they continue to perform.

**Fig. 3 Organogram of the Kosova Customs Service**



It is too great of an undertaking to describe each and all Customs directorates, departments, and sectors, which engage in various Customs processes and procedures. Clearance processes and procedures require a government's customs service to approve the movement of goods, collect taxes and duties, and engage in some sort of inspection. The current structure of the Kosova Customs Service ensures that these activities occur in compliance with the law.

This thesis focuses on clearance procedures, and by definition clearance means: The accomplishment of the Customs formalities necessary to allow goods to enter home use, to be exported or to be placed under another Customs procedure (World Customs Organization, pp. 4, 2006) and more precisely our focus is Internal Customs Clearance. But first we must understand how Customs Clearance is currently done.

## **5. CUSTOMS CLEARANCE: HOW IS IT CURRENTLY DONE?**

The European Union Community Customs Code provides for customs procedures we base our activities on and once a customs declaration is submitted the goods are subject to the applicable customs procedure.

The procedures are:

- 1) Release for free circulation,
- 2) Transit,
- 3) Customs warehousing,
- 4) Inward processing,
- 5) Processing under customs control,
- 6) Importation/temporary admission,
- 7) Outward processing, and
- 8) Exportation.

Customs warehousing, inward processing, processing under customs control, temporary importation and outward processing are often called procedures with economic impact and must have the authorization of customs officials of the home country.(European Commission, Community Customs Code, Art. 4 (16)CC, page 5)

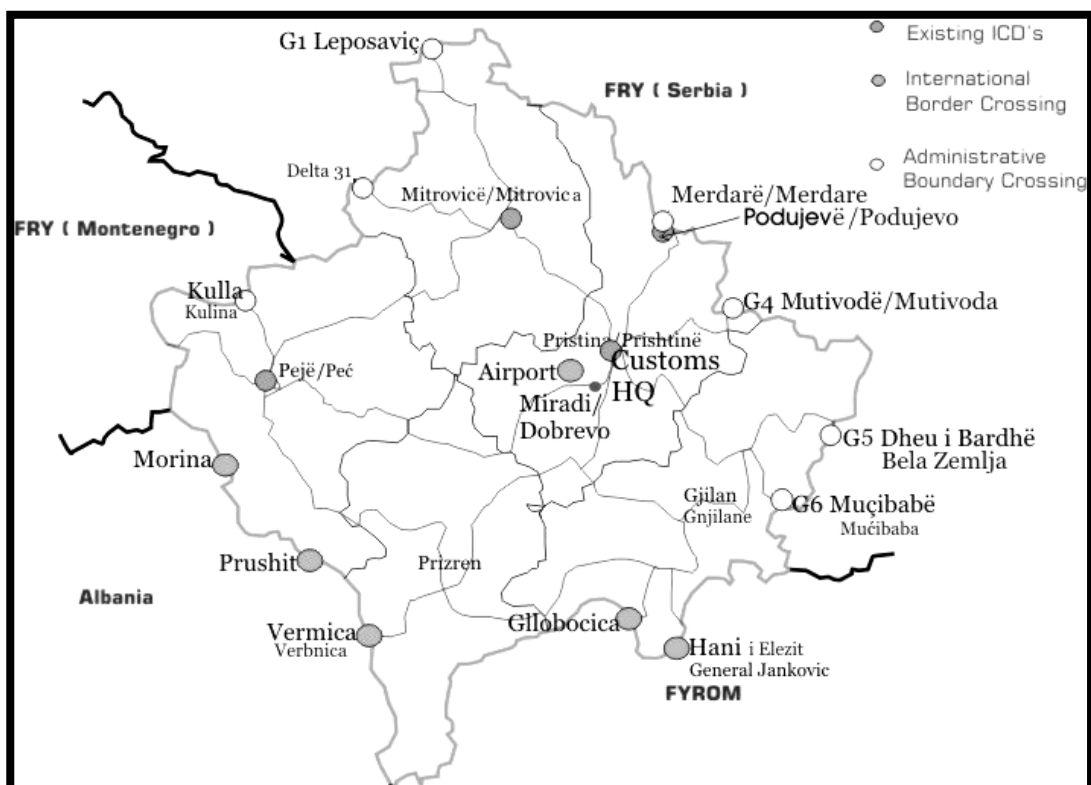
In the context of this analysis we will focus mainly on the primary Customs procedures of Import, Export, and Transit Customs Clearing Procedures of commercial and non-commercial goods which currently occur in Kosova almost exclusively at customs terminals located at or near border crossing points. These three represent the core of all customs regimes that govern the movement of goods

internationally and these are the primary customs procedure the Kosova Customs Service undertakes daily.

This descriptive analysis will lay the foundations for my argument that Internal Customs Clearance Procedures, a regional norm and customs procedure not currently implemented in Kosova which requires the existence of Customs Offices of Discharge and more public and private customs warehouses, should be implemented.

The following map should orient the reader to all of the currently authorized Border Crossing Points used by the Kosova Customs Service.

**Fig. 4 Map Showing Authorized Border Crossing Points**





The Kosova Customs Service implements import, export and transit regimes in order to control the movement of goods in, out and through Kosova's territory. Since the end of the war all customs clearance procedures, that is to say completing the required customs formalities – taxes, duties, inspection, etc., that are required in order to allow the goods to enter the territory (be imported), to exit the territory (be exported), or to be placed under some other customs procedure for example as named above, have almost exclusively done at border crossing points.<sup>10</sup>

Goods are transported to and through Kosova primarily via road systems, although there is some rail and air transport occurring. We will use as an example the customs clearing procedure as it currently takes place at any given border crossing point. We will focus on goods entering (imports) via transport vehicle because this is the primary mode of import, export, or transit we deal with in Kosova.

### **5.1 The Current Process - Import.**

When a carrier arrives at a border crossing point the driver must present to the Border Police his personal identification, drivers license and all other documents he must also present the Customs Officer with the appropriate documentation of goods he is transporting i.e. invoices, international road transportation documents (CMR), packing list etc.

In order to ensure that the transporter does not flee, the Customs Officer also takes the passport and vehicle documents of the driver. Although this practice continues,

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<sup>10</sup> The Customs Terminal at the Prishtina International Airport, or the rail links, as well as Customs Terminals located further in-land are less utilized. The Majority of Customs Clearance occurs at the Customs Terminal closest to the Border Crossing Point point of entry.

Customs Officers do not have the competency of retaining a passport and vehicle documentation. This practice developed immediately following the end of the war as a security measure. With that said, this combination of Border Police and Customs Officer working cooperatively is in-line with EU Integrated Border Management Policy

The Customs Officer must input the data from the documents into the TIMS system module called Evidence of Presentation (EP) where all the necessary data is recorded and compared with the information provided by the Customs Broker to ensure there is no discrepancy. The Customs Officer keeps a copy of the documents and returns the originals to the driver.



The authorized Customs Broker uses the same documentation presented by the driver to the Customs Officer to fill out the computerized Single Administrative Document (SAD) using TIMS and classifies the goods by using the TARIK harmonized system.

The Customs Broker computerized system is compatible with the Kosova Customs computerized system. The Customs Broker electronically transmits the SAD to the customs office and prints out a hard copy. He adds the hard copy of the SAD to the original documents and physically turns over the collection of documents to a Customs Officer that is located in the same terminal as the goods are. The Customs Broker must also provide the Customs Officer with any necessary a certificate of sanitary or veterinary inspection if required.

The Customs Officer has in his office hard copies and at his computer terminal he has the electronically transmitted SAD. Based on the order in which he receives the documents of each case the Customs Officer physically reviews a hard copy collection of documents.

Fig. 6 Example of a Single Administrative Document (SAD)

UNITED NATIONS INTERIM CIVIL ADMINISTRATION IN KOSOVO					CUSTOMS SERVICES				
SINGLE ADMINISTRATIVE DOCUMENT									
2. CONSIGNOR/EXPORTER No					1. DECLARATION		A. OFFICE OF DISPATCH/EXPORT		
					3. FORMS	4. LOADING LISTS			
					5. ITEMS	6. TOTAL PACKAGES			
8. CONSIGNEE No					9. PERSON RESPONSIBLE FOR FINANCIAL SETTLEMENT No				
					10. COUNTRY FIRST DEST	11. TRADING CNTRY	12. VALUE DETAILS		13. CAP
					14. DECLARANT/REPRESENTATIVE No	15. COUNTRY OF DISPATCH/EXPORT		15. Country of origin Code a) b)	17. Country of destination Code a) b)
					16. COUNTRY OF ORIGIN	17. COUNTRY OF DESTINATION			
18. IDENTITY AND NATIONALITY OF MEANS OF TRANSPORT AT DEPARTURE				19. Ctr	20. DELIVERY TERMS/PLACE/ZONE OF DELIVERY				
21. IDENTITY AND NATIONALITY OF ACTIVE MEANS OF TRANSPORT CROSSING THE BORDER					22. CURRENCY AND TOTAL AMOUNT INVOICED		23. EXCHANGE RATE	24. NATURE OF TRANSACTION	
25. MODE OF TRANSPORT AT THE BORDER	26. INLAND MODE OF TRANSPORT	27. PLACE OF LOADING		28. FINANCIAL AND BANKING DATA					
29. OFFICE OF ENTRY/EXIT		30. LOCATION OF GOODS							
MARKS AND NUMBERS - CONTAINER NO(S) - NUMBER AND KIND					32. ITEM NO	33. COMMODITY CODE			
					34. COUNTRY ORIGIN CODE a) b)	35. GROSS MASS KG		36. PREFERENCE	
					37. PROCEDURE	38. NET MASS KG	39. QUOTA		
40. SUMMARY DECLARATION/PREVIOUS DOCUMENT									
41. SUPPLEMENTARY UNITS					42. ITEM PRICE		43. VIM CODE		
44. ADDITIONAL INFORMATION DOCUMENTS PRODUCED BY CLIENTS AND AUTHORITY MARKERS					CODE	45. ADJUSTMENT			
					46. STATISTICAL VALUE				
47. CALCULATION OF TAXES					48. DEFERRED PAYMENT		49. IDENTIFICATION OF WAREHOUSE		
TYPE	TAX BASE	RATE	AMOUNT	MP	B. ACCOUNTING DETAILS				
TOTAL									
50. PRINCIPAL No					SIGNATURE			C. OFFICE OF DEPARTURE	
REPRESENTED BY									
51. INTENDED OFFICE OF TRANSIT (AND COUNTRY)					PLACE AND DATE				
52. GUARANTEE NOT VALID FOR					CODE	53. OFFICE OF DESTINATION (AND COUNTRY)			
D.I.J. INITIAL CUSTOMS OFFICE AND DESTINATION CONTROL					54. PLACE AND DATE				
RESULT					OFFICIAL STAMP				
NO OF SEALS									
IDENTITY									
CLEARANCE DATE									
SIGNATURE					NAME AND SIGNATURE OF DECLARANT				

He compares the printed file number with the computerized file number in order to compare the accuracy of data and any other legal Customs requirements. During this phase the appropriate Customs Duty is established and any fines as per the Customs Code are levied.

In the event that the data is inconsistent the Customs Officer will request additional documentation from the Customs Broker. If the data is consistent and the SAD is in order depending on how the company was profiled by the risk analysis department the shipment can be designated for inspection or can be released. If selected for inspection the shipment will be inspected by 2 customs officer and 1 supervisor.

Once the shipment is released the Customs Broker goes to another Customs Office in order to wait for the duty payment receipt. He takes the duty receipt to the bank branch to pay designated duties. The Customs Broker then returns to the Customs Office in order to get confirmation that the duty has been paid and then provides the Customs Broker with a release document authorizing the shipment to leave the terminal. Customs Terminal Security Officers validate the release document and let the truck go.

The SAD is extremely important because one copy must be kept by the Customs Service, the second copy must go to the Kosova Statistics Office, and the third copy goes to the Importer. This document is central for the Customs Service, the importer, and state.

## **5.2 The Current Process – Export and Transit**

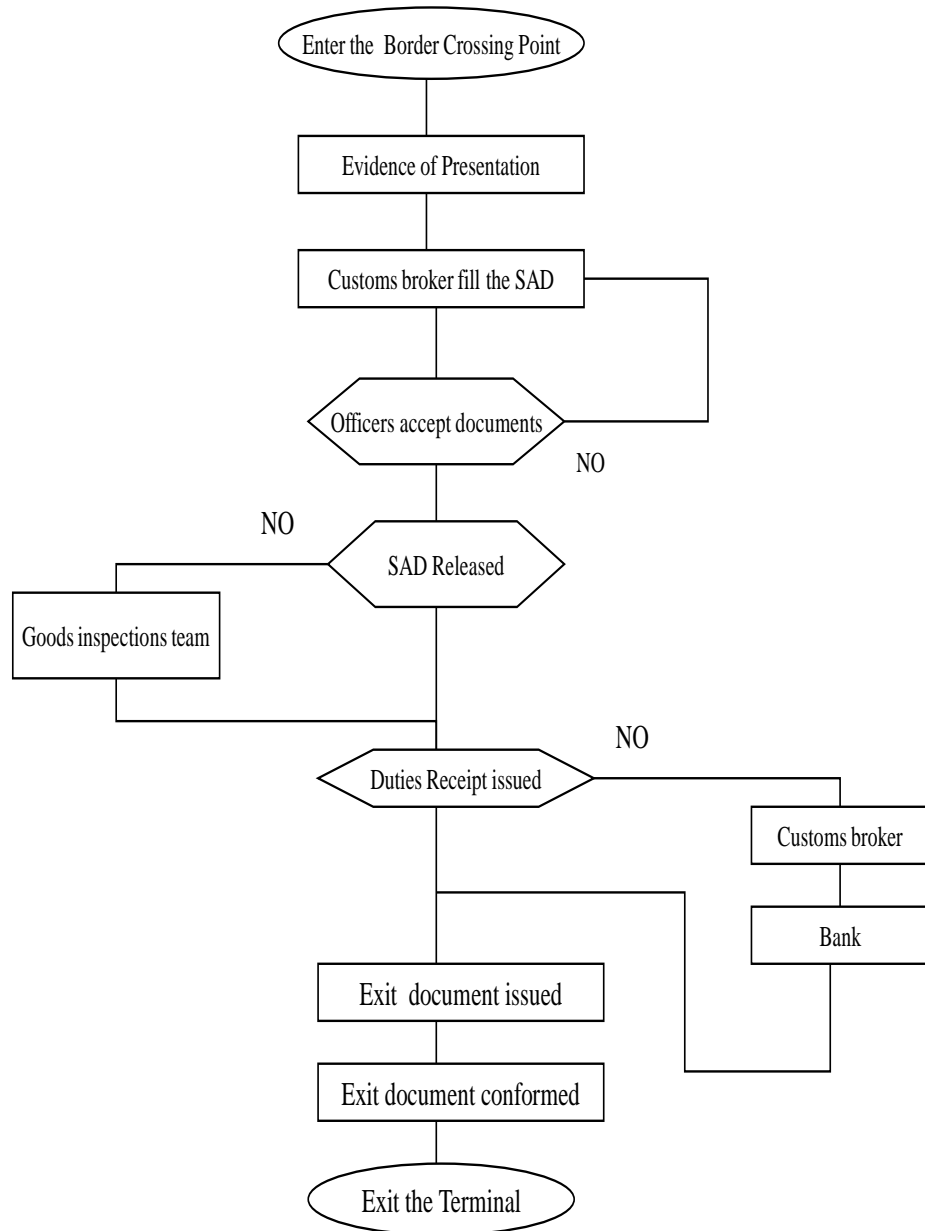
When it comes to export the shipment must go to the Customs Terminal where the Customs Broker is notified and the SAD is completed the same way as described above.

Once the shipment is cleared for export the Customs Broker goes to the exit in order to get confirmation by 2 Customs Officers where they stamp and sign the release documents and enter the data in TIMS so that there is an electronic record of export allowing the truck to exit the terminal.

With transit procedures it is the same as with import except the Customs Broker has to present a bank guarantee which grants that if the shipment does not exit the state the Customs Service has the right to deposit the guarantee amount as a customs duty.

When the SAD is validated the Customs Service must seal the truck (Alb. blombohet). The exit border crossing point is designated and the SAD is broken out into three copies for Customs, the driver so he can present it in the next country, and the Statistics Office . When the truck reaches the exit border crossing a Customs Officer verifies that it has left by signing, stamping and electronically entering that the shipment has transited. Only after this has occurred is the bank guarantee returned.

**Fig. 7 Algorithm depicting the current customs clearing process which occurs at border crossing point customs terminals**





### **5.3 The Current Process is The Current Challenge.**

The greatest challenge for the Customs Service, the transporter, the importer, and ultimately the consumer is average amount of time it takes for customs clearance in the current configuration to be completed. “Congestion at border crossing points and TCOs is an issue. The waiting time for trucks to go through customs clearance in Mitrovica and Hani I Elezit (the most congested points) can range from several hours to a whole day.” (Victor, 2002 pp. 6)

Even though customs procedures are no longer based on handwritten entries and filing, they are EDP – electronic data processing - and even though the level of dedication and commitment by Customs personnel is high Customs processes on average take close to, or more than, six hours.

This statistic is based on key performance indicators that were developed via the Lauftzel project, a joint project between the Customs Service and the International Kosova Customs Assistance Mission (initially known as CAM-K and later called CAFAO) where we measured the wait time of each procedure where each case was given a form in which the acceptance time and completion time was recorded starting with the wait time at the customs terminal up until the release of the goods into the market-place.

According to information from Customs Experts from more advanced nations that worked here as Customs Advisors we came to understand that the average time for clearing customs for a given load is two hours or less in the European Union. When compared to the average wait time in Kosova Customs the end result is clearly that

there is additional average four or more hour wait time. This presents an obstacle to business as well as foreign investors.

From a personnel efficiency perspective we come to the conclusion that too many man hours are being lost during clearing procedures confined to border crossing points.

## **6. INTERNAL CUSTOMS CLEARANCE PROCEDURES, OUR NEIGHBORS, and WHO REALLY BENEFITS?**

We have already established that for Kosova all Customs Clearance Procedures take place at border crossing points. But, Customs Clearance Procedures are not limited only to border crossing points, they can occur internally.

Internal Customs Clearance Procedures can take place at locations other than border crossing points. Border crossing points can act to register the entry of the goods and can be the point at which the shipper identifies or assigns the location where applicable customs clearance procedures will be completed –i.e. paying duties and taxes.

In the case of post-conflict Kosova this procedure has not been implemented to date, however our regional neighbors have been engaging in this process for many years.

The below table is designed to illustrate a comparison of the various Customs Clearing Procedures used regionally. Kosova is the only State to not use internal customs clearance.

*Tab. 8 Comparison of Regional Customs Procedures by Mode of Transport*

<b>Procedures by mode of transport</b>	<b>Albania</b>	<b>Macedonia</b>	<b>Montenegro</b>	<b>Serbia</b>	<b>Croatia</b>	<b>Slovenia</b>	<b>Bulgaria</b>	<b>Kosova</b>
<b>Land</b>	Y	Y	Y	Y	Y	Y	Y	Y
<b>Railways</b>	Y	Y	Y	Y	Y	Y	Y	Y
<b>Sea</b>	Y	N	Y	N	Y	Y	Y	N
<b>Air</b>	Y	Y	Y	Y	Y	Y	Y	Y
<b>Internal Customs Clearance</b>	Y	Y	Y	Y	Y	Y	Y	N

The table illustrates Customs Regimes as well as Internal Customs Clearance Procedures regionally. As you will note the transport of goods from sea ports does not occur in Macedonia, Serbia, and Kosova simply because these are landlocked countries.

Internal Customs Clearance Procedures are used by all regional neighbors except for Kosova which was forced to not implement the procedure since the end of war and throughout the period of time it has taken to establish the Kosova Customs Service.

The primary reason Internal Customs Clearance Procedures were not implemented in the initial days of establishing the Kosova Customs Service was in order to avoid fiscal evasion and smuggling of goods because the legal and administrative

infrastructure was absent. UNMIK Customs was forced to collect customs duties at the border crossing points only to not allow the shipments to leave. This created inefficient and very long wait times, confusion, and negatively impacted the development of local business and attractiveness to foreign investors.

Kosova's regional neighbors all use Internal Customs Clearance Procedures but what you can't see is that many of them have failed to make modifications or modernize their systems based on current regional political/administrative trends and new advances in technology that are being used the field.

All of Kosova's neighbors are states that can be called transitioning in that all of them used some form of centralized economic planning based on socialist political systems until the end of the cold war. These systems and the associated legal frameworks did not allow for public ally owned warehouses as a private business activity to exist. Public ally owned warehouses, a critical component to facilitating internal customs clearance procedures in the case of Kosova will be discussed in greater detail in a later chapter.

In the past, and currently, all of Kosova's neighbors that currently engage in Internal Customs Clearance Procedures do not do so by using warehouses. They base internal Customs Clearance on regional, district, city or any other administrative distinction whereby the Customs Warehouse is part of the Customs administration infrastructure – basically, they are state run, not private enterprises.

These outdated bureaucratic procedures that do not fully maximize the opportunities political, legislative and economic reform coupled with information technology advances result in missed opportunities for our neighbor states to establish time and

personnel reduction policies that translate into the increased efficiency of their customs service.

## **7. INTERNAL CUSTOMS CLEARANCE: THE BENEFITS OF EFFICENCY.**

I interviewed the Director General of the Kosova Customs Service, Mr. Naim Huruglica,<sup>11</sup> about this issue and he shared with me these very interesting details. *“When UNMIK decided to create its Customs Administration, there was lack of everything in Kosova, particularly infrastructure and banks system. Based on that situation, the decision was made that whole customs procedures start and finish at the border, without applying internal customs clearance. 9 years after, the situation is different and the strategic development of Customs service is going in direction of moving the control from the border inside the country. There are advantages of this but also disadvantages: As advantages I see:*

- *Avoid the delays at the border. The volume of traffic is increasing and it is impossible to try to clear all procedures at the border. The pressure from business is increasing regarding the time clearance.*
- *Takes the pressure for further border infrastructure investments.*
- *Gives better possibilities for Customs authority to identify legitimate business from illegitimate business,*
- *Decreases the services’ cost for business, etc.”*

He also highlighted the disadvantages:

*“As disadvantages I see:*

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<sup>11</sup> Those interviews that were returned to me via the internet appear in transcript form in the attached annex.

- *The risk for tax evasion.*
- *The cost for applying such procedures. Companies have the cost as usually the practice is to provide a bank guaranty for customs authorities and for customs authorities to engage more staff and equipment, etc.”*

I found his analysis in terms of the disadvantages very valuable for this thesis because the same concern about the risk of tax evasion was one of the main reasons the procedure was not implemented almost a decade ago.

I also found it interesting that there was a concern in terms of the cost of additional staff and equipment for the Customs Service. Although I did not have access to budget allocations in specific detail, my research solidified my belief that there is the possibility for the procedure to implement in a way that does not require additional expenditures by the Customs Service by relying on the pre-existing infrastructure and personnel pool. Furthermore, any additional Customs Offices that will be opened will not be new construction, rather they will be space allocated by another government agency. The Ministry of Public Services can provide the space or other Ministries as part of inter-agency efforts designed to more efficiently use government resources.

With all due respect in terms of the disadvantages identified by the Director General, he and I found common ground in our belief that the time is right for Internal Customs Clearance Procedures to be implemented. The benefits outweigh the risks, the risks can be managed, and most importantly the Customs Service and the Business community will find that there are efficiencies created for both entities.

Therefore, Customs Clearing Procedures can be re-engineered in Kosova making the Kosova Customs Service a leading example for neighboring countries, many of which still face great internal challenges because they are unable to break away from their own political past.



Unlike in Kosova, many of their senior leaders have inherited out-dated systems and poorly planned organizational and administrative infrastructures. Many have not had the opportunity for contemporary updated training programs which makes it hard to bring about rapid reform due to a lack of experienced and modern-day well trained professionals.

### **7.1 What we have done and taking advantage of what is happening around us.**

The Kosova Customs Service has the advantage because our personnel derives from a new generation of customs officials where everything learned and applied is based on the most current practices based on EU standards. Most of this young work force easily accepts change and adaptation. On average Kosova Customs Service personnel speak 3 languages, have no problems using current technology, participate in and benefit from many different kinds of training programs and have shown themselves to be very motivated.

Our customs service is compatible with EU member states in terms of general procedures, the system used to classify goods, and by way of the Kosova Customs Code itself. But, the basic process of clearing goods has remained in a condition that was defined by post conflict chaos and institutional vacuums filled by an international interim administrative presence.

The declaration of independence has resulted in Kosova no longer having administrative boundary lines, but rather internationally recognized borders by at

least 22 of the 27 EU member states.<sup>12</sup> The Kosova Customs Service is the now only authorized Customs institution that operates on the territory of Kosova with full authority. The same trade preferences are in place for neighboring states, to include Serbia and Montenegro which continue to enjoy trade privileges and to a certain extent this applies to Macedonia as well. Because of CEFTA the same trade rules apply for all signatories to include Kosova.

Contemporary business demands as reflected in import, export and transport activity indicate to us that we must ensure that we can respond appropriately. Road infrastructure development is also effecting economic development in Kosova. New and modern road systems are being constructed regionally such as the one from the Port of Dures in Albania that stretches to the border with Serbia and the one from Kosova's capitol city of Prishtina to the border with Macedonia. The road infrastructure investments and the increased functionality of the Prishtina International Airport and the Kosova Rail Way system increase the need for the implementation of such a Customs Clearing Procedures because of the increase in the need for the transit of goods that will have to transit through the modern territory of Kosova with shorter travel distances.

Bearing in mind the number of successes our Customs Service has had and following Kosova's declaration of independence, I believe that Kosova will be able to join the Transport International Routier Agreement (TIR) which will make possible the movement of goods through our territory with a TIR Carnet, a document which makes a bank guarantee unnecessary.

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<sup>12</sup> If you asked Serbia, or the 5 EU countries that have not recognized Kosova as independent they would not agree with this statement. The Kosova Customs Service derives its authority from and is in conformity with Kosova's Constitution.

Regionally and in Kosova the process of privatization has attracted foreign company investment in many former Yugoslav gigantic companies. Most of these socially owned enterprises and their holdings were privatized with favorable conditions. The results have been the creation of an increase in demand for internal customs clearance procedures. For example, the Feronikeli company, one of Kosova's largest and the region's largest ferronickel mining company, has greatly increased the number of imports and exports because most of its raw materials are imported. These imports are necessary in order to produce its product and then "re-export" it.

After war there were a number of legitimate reasons for internal customs clearance procedures to not be implemented, primarily the need to avoid fiscal evasion, smuggling and other security concerns. Almost a decade later and with the help of international experts the Kosova Customs Service has been able to establish fully integrated sectors that can support the implementation of internal customs clearance procedures such as the Risk Analysis Sector, the Investigative Sector, the Law Enforcement Sector, the Intelligence Sector, and the Compliance Sector.

The Kosova Customs Service has identified and categorized registered businesses and profiled their risk potential. These efforts continue, and furthermore many businesses have been licensed to engage in associated activities while the Kosova Customs Service retains their business bank guarantee deposits as a precautionary measure in the event that the business fails to fulfill its obligations.

Inter-agency cooperation with the Tax Administration and the Police Service both of which support and coordinate well with the Kosova Customs Service also provide favorable institutional conditions for the implementation of this procedure. In fact, implementing this procedure would result in the delegation of additional competencies for these institutions in line with current economic and legal policies.

Cooperation with the Customs Administrations of the countries that surround is also at a good level making our work much easier. In particular information sharing by using technology has greatly improved making it so that we can now have information about shipments headed to Kosova before the border is crossed by the transporter. This improved level of regional cooperation allows us to process data faster and to ensure the data is at the right place at the right time.

The Information Technology Sector of the Customs Service and made possible the rapid development and implementation information technology that is up to date with technological and software advances, they provide various training events, and they remain current with a well spread out IT infrastructure.

New case processing software supports internal customs clearance by providing a trained staff capable of using the modern real-time computerized systems. Once the transport truck arrives at the border crossing point the Customs Officer registers the exporter, importer, license plates, goods description brute and net

weight, value, and so forth in the system and can ask the driver where he prefers to go for customs clearance. Once the Customs Officer knows where the transporter needs to go he can designate the destination office which is described by way of a 4 digit number. Once the destination office is designated it becomes the obligation of that office to confirm that the clearance procedure has been completed. This procedure is applicable for all customs regimes such as export, import and transit and during the course of this process there is Customs oversight and supervision.

Using preexisting information technology for Internal Customs Clearance creates a good basis for future development and implementation of E-Customs, a completely computerized system which is the current trend.

## **7.2 The Personnel Perspective.**

For the Kosova Customs Service their internal customs clearance also results in cost reductions because we simplify procedures reducing administrative and personnel requirements and the additional time can then be used in more creative effective and efficient ways.

From the administrative and human resources perspective, the Kosova Customs Service personnel have benefited from numerous training programs in various specialty areas. The personnel transfer system of transferring customs officers from one border crossing point to another has resulted in the majority of our customs officers being familiar and competent in the majority of customs procedures.

Implementing internal customs clearance procedures would also result in an overall reduction in the number of personnel required to work at border crossing points. Such a change would have a positive impact on employee moral because customs officers assigned to border crossing points often have 12 hour shifts in odd patterns. Additionally, developing a standardized shift schedule makes planning and paying for reimbursable transportation costs that are individual more cost effective because organized transportation can be applied.

### **7.3 The Business Perspective**

The application of Internal Customs Clearance will help us meet the demands of increase in import, export, and transit activity in post independence Kosova. Currently, the procedures we are using now are outdated and are increasingly becoming a hindrance and obstacle for transport/shipping companies precisely because of long delays and long wait times at customs terminals.

The Kosova Customs Service needs to be more efficient and this efficiency will reflect positively for the business community and the consumer community in Kosova.

Internal customs clearance procedures will set the conditions for business that import to choose when and where they will clear their shipments thus reducing wait time and reducing excess costs for business as well as for the Customs Administration. Reduction of the overall wait time also reduces their costs and makes it possible for their goods to be delivered at a specified location at a specified time. The positive impact on businesses is clear allowing them to meet customer demands and withstand competition.

### **7.4 The Real Challenge**

Perhaps the greatest challenge then is the wait times at border crossing points. Implementing internal customs clearance procedures is the answer that includes increasing the efficiency of the Kosova Customs Service by using pre-existing

legislative, budgetary and administrative capabilities in order to create a more favorable environment for local and regional business, which will attract foreign investment, and to bring us closer to EU standards.

Therefore, in the case of Kosova the fortune in our misfortune is that we can implement internal customs clearance procedures in a very modern, cost effective and efficient way with many benefits.

But how exactly can we do it?

## **8. WHERE RE-ENGINEERING BEGINS: A ROAD MAP TO IMPLEMENTING INTERNAL CUSTOMS CLEARANCE PROCEDURES**

Currently the legislative framework necessary to implement Internal Customs Clearance Procedures is in effect and in support of this procedure. The implementation of the new Customs Code makes it easy because the procedures necessary already exist.

From the legal perspective, the Law Enforcement Directorate ensures that internal customs clearance procedures are implemented in conformity with applicable law by properly managing the Intelligence, Investigative, Risk Analysis, External Auditing, Compliance and Planning Sectors. All of these sectors are inter-related and linked by compatible information systems that facilitate implementing internal customs clearance procedures.

Our basis will be the current infrastructure because this infrastructure ensures a good level of support, however it requires re-engineering that relies on existing capacity.

What this means is that because the operating budget has already been approved additional funding cannot be secured for fiscal year 2009, so for our purposes we will assume that existing capacity allows for re-engineering without additional budget allocations. In fact, implementation of internal customs clearance may require limited initial expenditures however following a re-engineering that allows for implementation we will find ourselves in a situation where funds will become available as a function of reduction of shift times, personnel and reimbursable travel expenses.



Our goal is that this process will increase the efficiency of the service. We will also be the first in the region to apply this process in a rationalized (re-engineered) manner allowing us to reduce wait time by up to four hours and reduce excess expenditures, not create new ones.

### **8.1 A Request to the Ministry of Trade and Industry**

In order to simplify the work of the Customs Service we should request from the Ministry of Trade and Industry that all local Transport Companies be licensed and that it be mandatory for local Customs Brokers to be licensed too. This measure will ensure the development of a healthy normative operating environment framed by uniform standards and strict regulations.

For example, licensing Customs Brokers means that they have to meet a various criteria such as in order to get a license they must deposit a certain level of money in the bank account designated by the Ministry of Trade and Industry. Once the license is secured and the money is deposited the Customs Broker will not need to provide bank guarantees for any and all applicable customs regimes.

Customs Brokers will also be required to prove that their staffs are trained appropriately to engage in customs activities by way of certificate programs.

Licensing fees and periodic re-certification will provide an additional revenue source.

## 8.2 Designing a Marketing and Public Information Campaign.

In order to inform the business and public community the Customs Service will have to design a public information campaign that must target various target segments recognizing that there are different needs and concerns among the market segments. There is a general trade community that consists of Customs Brokers, Banks, Shippers/Transporters, and business entities that rely on import and export all of which have shared and unique needs.

Interestingly, when I interviewed Customs Brokers and Private Business<sup>13</sup> that import I found that many had misunderstood Internal Customs Clearance procedures in general as somehow negatively affecting their type of business activity. This misperception is seen in the excerpts of interviews below and will have to be carefully studied and treated by the Kosova Customs Service.

An interview with a Customs Broker 12/30/2008 “ *Taking into consideration the fact that Kosova is a small territory it does not appear to be of great importance which customs terminal is used for customs clearance. Other than this, based on the experience with one terminal near an existing warehouse in Prishtina, I think this type of work is not of great value. The trucks that arrive on Friday cannot be cleared until Monday afternoon or even Tuesday because we are not able to get the documents so we can begin work on the case. There is no one there to at a minimum accept any documentation we have. We only benefit from these types of warehouses when we have small shipments that can easily be unloaded.*

This Customs Broker did not fully understand the different components of the process and how Internal Customs Clearance Procedures would benefit him. His complaint was based on experiences with a single warehouse that were negative

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<sup>13</sup> Interview transcripts appear in the Annex.

because his fear was that he will lose clients. His false reasoning was that if there are more warehouses and Customs Offices of Discharge that his clients will go somewhere else and not use a Customs Broker. The reality is that Customs Brokers may lose a client or two, but will also gain clients because Customs Brokers are absolutely necessary for clearing customs as authorized agents.

An interview with a Business Owner that imports various products 12/22/2008: *“For Importers it is not important which terminal our goods clear customs. What is important is that more than 95% of the time the goods need to clear in the same day. For the importer this procedure is not important because the Customs Broker does the work and the importer is informed as to when he should prepare his employees to unload the goods that will eventually be delivered. It does not benefit us at all that our goods, which are fragile should be unloaded in a customs warehouse that does not know anything about our goods.”*

In this case the importer did not understand the process and its benefits either because he can still use customs terminals if he wishes, but what I understood to be most important to him was that the process be done very quickly. Over the years his products took more than two or three days to clear and so his expectation is different from current EU standards of two hours to clear. For him 24 hours or more was acceptable when in reality if he were told he could have his goods clear customs in 2 hours instead of 24 hours or more I am certain he would prefer to instruct his Customs Broker to use Internal Customs Clearance Procedures. Furthermore, if this business owner needed to re-export his goods Internal Customs Clearance would benefit him even more.

What this indicated to me was the necessity for the Kosova Customs Service to seriously investigate the how to better inform Customs Brokers in particular so that understand that Internal Customs Clearance Procedures that includes Customs Warehouses do not present any form of competition for the Customs Broker, rather the implementation of this procedure also provides more business opportunities for Customs Brokers as part of the broader business community.

Therefore in planning marketing and information campaigns the Customs Service will need to do market research to identify the different market segments they need to inform. The majority of the data can be requests from various government agencies that collect statistics and data such as the Kosova Statistics Entity, the Kosova Business Registration Agency, and the Kosova Chamber of Commerce etc.

In the most general terms the Customs Service should organize seminars for the business community and customs brokers to inform them of the newly implement customs clearing process and the associated benefits. The Customs monthly magazine “Informatori Doganor” can run informative articles on the procedures and requirements. Similar information can appear on the Kosova Customs Service Webpage ([dogana-ks.org](http://dogana-ks.org)). Both of these information mechanisms already exist and can very easily be exploited as a first step.

Print material such as brochures and informative flyers can be provided for symposiums organized by the Ministry of Trade, Ministry of Health, Ministry of Agriculture, the Chamber of Commerce, the Kosova Business Agency and many other institutional, academic, commercial, and related entities together with the Customs Service to off-set cost by sharing costs with the above mentioned entities.

By using the media, particularly national television, we can inform the population about the benefits the process of Internal Customs Clearance provides and the new opportunities this process will create for businesses.

### **8.3 What do we tell them?**

Why is internal customs clearance important for business? There are a number of ways to respond to this question. But let's focus on the importer.

The importer is able to warehouse his goods at the location of his choosing (which ideally is closest to his customer base) and only at the time of sale of his goods (or release into free circulation) does the importer pay the associated duties and taxes on the goods (which ideally means that he is able to better manage his liquidity by keeping more cash on hand instead of paying duties on an entire shipment of goods he pays only for the goods he has sold).

The importer is also able to re-export or sell to another local importer that can continue to warehouse the goods.

The licensed public customs warehouse keeper derives his profit from the fees he charges to the importer for warehousing the goods and in order to do this he has to be authorized.

The purchaser of the goods benefits because he is able to order smaller amounts and get them delivered faster and with less traffic issues given the narrow roads in most cities where when large delivery trucks come it usually results in major traffic delays.

#### **8.4 What are the critical components?**

Implementing Internal Customs Clearance procedures hinges on two critical components:

- 1) The authorization of Type A Public Customs Warehouses and**
- 2) the fielding of Customs Offices of Discharge throughout the territory of Kosova.**

To fully maximize the positive effects of Internal Customs Clearance Procedures we require the existence of an adequate number of public and private customs warehouses because the procedure does not require the transporter or importer to physically show up with the goods. Rather the goods are warehoused at designated customs warehouses and only when a certain portion or the entire shipment is ready for release into the free market does the importer dispatch his customs broker to the nearest Customs Office of Discharge to clear the goods. Customs warehousing is a customs procedure in and of itself but one we will not discuss here as we are investigating Customs Clearance Procedures that can occur at various locations.

In order to open Type A public customs warehouses interested parties must apply in conformity with Administrative Directive 8/2004 of the Kosova Customs Code. The interested party must secure a bank guarantee. We as the Customs Service must reply within 60 days of receiving and reviewing the application. If the interested party meets all of the criteria then the Customs Service will issue a license to operate a Type A Public Customs Warehouse.

The number of warehouses will not be limited because we are all aware of the fact that competition increases trust and efficiency as well as provides acceptable service pricing. Furthermore the more Public Customs Warehouses to be authorized the more employment opportunities become available for Kosovars.

### **8.5 Private and Public Customs Warehouses – What is the Difference?**

The difference between a Private and a Public Customs Warehouse is that a Private Customs Warehouse is for the storage of goods deposited by an individual trader authorized as the warehouse keeper. The warehouse keeper need not necessarily own the goods but must be the depositor. Basically, the Private Warehouse is one that is authorized for use by an individual trader who is at the same time the Authorized Warehouse Keeper.

A Public Customs Warehouse is authorized for use by warehouse keepers whose main business is the storage of goods deposited by other traders (depositors) or better said is one that is authorized for use by a warehouse owner whose business is not importing and exporting goods, his business is operating a warehouse that other importers and exporters pay a fee to the warehouse keeper for storage of their goods at his warehouse.

**Tab. 9 The three types of Customs Warehouses that will be authorized to operate in Kosova are Type A, Type C and Type D. According to the Kosova Customs Service (Kosova Customs Service Administrative Directive 8/2004, page 6, c. 1.8)**

<b>Type</b>	<b>Description</b>
<b>A</b>	A public warehouse
<b>C</b>	The basic private warehouse
<b>D</b>	An alternative private warehouse, appropriate to traders who primarily import goods for free circulation. Any removals to free circulation must be made using the local clearance procedure (see Part 8) using the rules of assessment established when the goods are entered for the warehousing procedure. The rules of assessment cover the nature, value and quantity of the goods

All Customs Warehouse Keepers are required by law to keep accurate records of all of the goods placed in their warehouse.

Currently, there are 144 Type C and Type D Customs Warehouses located throughout Kosova. Because Type C and Type D Customs Warehouses are authorized only to store their own goods those Customs Warehouses are not adequate for Internal Customs Clearance Procedures for the rest of the importing business community. Although Internal Customs Clearance Procedures can be executed in these types of Customs Warehouses they do not offer the benefits to the larger business community.

Type A Customs Warehouses is the Customs Warehouse model that is most compatible with Internal Customs Clearance Procedures because the Warehouse



Keeper is authorized to receive the goods of all importers and exporters. However, there is only one Type A Customs Warehouse in Kosovo that is not fully operational.

Up until recently, although by law Type A Customs Warehouses could exist, it was the policy of the then UNMIK Customs Service to not authorize operations due to security and high risk assessments. In early 2008 and with the “Kosovarization” of the Customs Service a policy shift has occurred allowing for authorizations to be granted to those entities applying for authorization to establish a Public Customs Warehouse.

It is critical that the Customs Service together with the various interested parties from other Ministries, Chamber of Commerce, business associations and other entities be made aware of the policy change which presents itself as a new business opportunity in order to stimulate applications and the rapid creation of more Type A Customs Warehouses throughout the territory of Kosovo.

There is an additional incentive to opening Public Customs Warehouses that are linked to road traffic. When goods begin to be warehoused throughout public customs warehouses better conditions are created for road traffic because there are fewer large transport vehicles because a large shipment can be brought to a Type A public customs warehouse, unloaded, and only when the importer of the entire load sells a portion of the load does he clear customs – i.e. pay duties and taxes, making it so the shipments are broken down into smaller units. This is important because recent laws concerning the size and weight of vehicles on Kosovo’s road systems are increasingly making it harder for importers to escape fines.

## **8.6 Critical Component #2 – Fielding Customs Offices of Discharge Already There + The New Ones**

The second critical component to setting the conditions for the effective and efficient implementation and utilization of internal customs clearance procedures is the fielding of Customs Offices of Discharge throughout the territory of Kosova in the appropriate locations.

If the authorization and establishment of more Public Customs Warehouses was an important step we must understand that step to be one that is dependent on the business community itself, but one that can be assisted by a public information campaign designed and executed by the Customs Service. The fielding of Customs Offices of Discharge is the responsibility of the Customs Service itself.

The strategy that should be used in this regard should first and foremost rely on pre-existing Customs Service infrastructure and personnel whereas the actual offices, new or pre-existing, should be based on the administrative geographic district system used by other Kosova institutions such as the Kosova Statistical Office.

There are a total of 7 administrative regions in Kosova. The Gjilan region covers Gjilan, Kamenica, and Viti. The Mitrovica region covers Mitrovica, Leposavic, Skenderaj, Vushtri, Zubin Potok and Zvecan. The Peja region covers Peja, Klina, and Istog. The Prishtina region covers Glllogoc, Fushe Kosove, Lipjan, Novo Brdo, Obiliq, Podujevo and Prishtina. The Ferizaj region covers Kacanik, Shtime, Shtirpce and Ferizaj. The Prizren region covers Prizren, Dragash, Suhareka, and Malisheva. The Gjakova Region includes Decani, Gjakova and Rahovec.

If we look at some basic data for each one of the main municipalities of the 7 administrative regions it is clear that the business community has a large customer base and will benefit from internal customs clearance procedures being implemented. Customs Offices of Discharge will be fielded according to these administrative regions to meet the demands of the business and consumer communities.

*Fig. 10 Data on Each Main Municipality per Administrative Region*

<b>Municipality</b>	<b>Population</b>	<b>Registered Businesses</b>	<b>Main Sectors</b>
<b>Gjilan</b>	135,000	3,900	Textile, Trade, Metal Processing
<b>Mitrovica</b>	130,000	3,400	Mining, Metal Processing
<b>Prishtina</b>	500,000	14,000	Construction, Telecommunications, Banking, Trade, Hotel Industry, and Energy
<b>Ferizaj</b>	165,000	4,500	Construction, Wood Processing, Food Processing
<b>Prizren</b>	240,000	6,700	Agriculture, Food Processing, Trade, Construciton, Toursim
<b>Gjakova</b>	150,000	3,200	Agriculture, Food Processing, Textile, Metal Processing
<b>Peja</b>	170,000	4,000	Agriculture, Food Processing, Trade, Banking, Craft Industry, Tourism

The Customs Service recognizes the needs of businesses and consumers and therefore must work to create the conditions for business owners that seek to clear

customs (pay duties and taxes for the goods to be released) as close as possible to the locations where they will store or sell their goods.

The following pre-existing Customs points in use for commercial goods are the Prishtina International Airport Customs Terminal, Interevropa (the only Type A authorized Customs Warehouse with a Co-located Customs Office), Dheu i Bardh Customs Terminal at the Border Crossing Point with Serbia located in Kamenica, the Hani i Elezit Customs Terminal located at Bording Crossing point bordering Macedonia, Vermica Customs Terminal Border Crossing Point bordering Albania, Peja Customs Terminal located in the city Peja receiving goods entering from the Kulla border crossing with bording Montenegro, the Mitrovica Customs terminal is located in the city of Mitrovica and is supposed to receive goods entering gates 1 (Leposavic) and 31 (Zubin Potok) entering from Serbia, Podujevo Customs Terminal located in the city serving goods entering from Merdare Border Crossing point with Serbia.

These Customs Offices will continue to clear goods because they can easily be redesignated as Customs Offices of Discharge. What this means is that goods cleared at these locations do not need to be physically inspected because the cases were already entered and reviewed at the border crossing point based on the appropriate risk analysis guidelines. In reality these pre-existing Customs Offices are engaging in the activities of Customs Offices of Discharge.

## **8.7 The New Ones**

In order to more effectively and efficiently serve the business community and facilitate the implementation of internal customs clearance procedures an additional four Customs Office of Discharge must be opened plus in one instance expansion of a passenger border crossing point to include functioning as a border crossing point

for commercial goods must occur at the Qafa Morina Border Crossing Point in the Gjakova region. This will allow the Qafa Morina location to function as a Customs Office of Discharge.

Although there in Prishtina the Customs Service can rely on the Customs Terminal at the Prishtina International Airport and the Interevropa Customs Warehouse, one new Customs Office of Discharge is to be opening in Norther Prishtina because the Prishtina is home to the largest business community.

One new Customs Office of Discharge will be opened in Gjilan. The Dheu I Bardhe Terminal located in Kamenica is a long distance away and overused which often creates long delays and additional expenses for companies. Furthermore this new location will benefit the Viti business community as well.

One new Customs Office of Discharge will be opened in Drenas. Drenas is geographically located in central Kosova and is where the Feronikal Factory is located. Feronikal engages in an extraordinary amount of import and export activity because the Feronikel Factory is one of the regions largest nickel and other mineral processing plant.

The final new Customs Office of Discharge will be opened in Ferizaj. This is based on the strategic geographic location of this city that acts as a critical crossroads linking Ferizaj to the main highway to Macedonia, to the road from Prizren which is linked to Albania and also linked to the road to Gjilan. This geographic reality has resulted in a large number of companies gravitating towards Ferizaj since the end of the war.

Although one could argue that a new Customs Office of Discharge would be rational in the Prizren region I argue otherwise. In the case of Prizen the Vermica Customs Terminal can facilitate internal customs clearance procedures by functioning as a

Customs Office of Discharge. However it must be noted that eventually a new Customs Office of Discharge will have to be opened in this region because once highway infrastructure construction, which will link Kosova to the ports along the coast of Albania, is completed the volume of goods will greatly increase.

These four new Customs Offices of Discharge will be located in buildings owned by the Ministry for Public Services in order to avoid the necessity to construct or rent offices.

### **8.8 Staffing the New Offices: Finding, Managing, and Maximizing the Efficiencies**

Likewise, these new Customs Offices of Discharge will need to be staffed. The staff for each Office should consist of 4 Customs Officers on standard 8 hour a day shift. Electronic Data Processing has resulted in reducing the required man-hours necessary to complete daily case loads. The Senior Officer will be a Grade 7 Team Leader and the other three will be subordinate Grade 6 Team Officers. All 4 Customs Officers will work out of the same office if necessary. Each Customs Office of Discharge will be allocated one vehicle for official use if available.

The training sector within the framework of Customs will be provided the planning basis for the internal customs clearance so that they can design training modules for the staff which will be followed by the re-systemization of officers at selected locations based on the concept of the necessary person at the necessary location.

At three month intervals, or quarterly, goods movement statistics gathered at each Customs Office will be analyzed to developed a trend analysis and identify a set of indicators that will be used to update and/or restructure personnel as needed. The

quartile approach is not trivial, it is designed to be compatible with inter-agency analysis undertaken at various Ministries and institutions.

The existence of Public Type A, and Private Type C and Type D Customs Warehouses and the fielding of additional Customs Offices of Discharge to augment pre-existing Customs Offices that can function in this capacity internal customs clearance procedures can be implemented with implications on personnel.

Implementing Internal Customs Clearance Procedures which required a re-engineering of the current Customs clearing system requires a personnel re-systemization which ultimately results in a reduction of personnel assigned to various Customs Terminals.

Internal Customs Clearance Procedures result in an overall reduction of case-load. The distribution of cases is more rationally applied and efficiently assigned to the designated Customs Offices of Discharge designated at the point of entry when the customs declaration was first made and entered into the Evidence of Presentation.

Personnel reduction among Customs Terminal Offices does mean that customs officers will be dismissed.

Most will be assigned to the newly opened Customs Offices of Discharge. Customs Officials re-assigned to these offices will be selected, among other things, based on how close they live to the Customs Office of Discharge in order to reduce reimbursable transportation costs. Unfortunately, the Customs Service continues to assign Customs Officers to locations very far from their place of residence often creating higher and unnecessary transportation costs as well as resulting in travel time to and from work of up to 1.5 hours drive time.

Additional re-assignments will include Customs Officers being sent to form new units. Flexible Anti-Smuggling Teams (FAST), which already exists, are suffering from inadequate numbers. Re-assigned personnel can form the core of new FAST teams. The Customs Service as a whole would benefit from more FAST teams because the Offices of Discharge will increasingly need these teams.

Once reassignment has occurred, perhaps the greatest benefit to the Customs Service and the to moral of Customs Officers is the ability for shift redesign. Because of the large flux of movement of goods and because of long lines along the border Customs Officers currently assigned to Customs Offices at Border Crossing points work in 12 hour shifts every day.

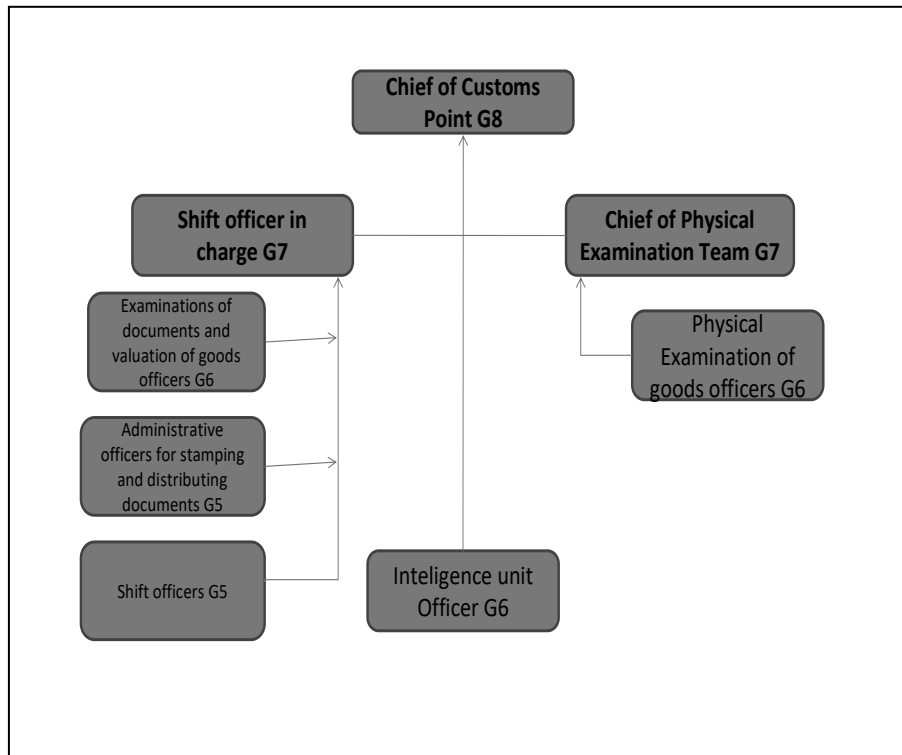
The implementation of internal customs clearance procedures will allow for positive adjustments in the human resources aspect because only at border crossing points will there be 12 hours shifts and the reduced number of officers working those 12 hour shifts will enjoy additional benefits. At Offices of Discharge the standard 8 hour shift schedule will apply.

The Customs Service can make exceptions in special cases for the business community by providing customs clearing services during off-hours and weekends. This will require that the importer inform the Customs Service in advance of the day and time they wish to clear customs. This service will include an additional cost in the form of a special service charge or tax. Collection of these special service charges result in additional revenue for the Customs Service which represents additional budgetary resources to pay for the costs associated with providing this special service that include manpower and equipment.



Based on this we will look at the branch organogram to see how it will look with the implementation of internal customs clearance procedures which is very different from the actual organogram in terms of the number of officers and specialty areas.

**Fig. 11a Organogram of Customs Terminal Branch Staff Prior to Personnel Reorganization**



*Fig. 11b Organogram of New Personnel Organization at Customs Terminal Branch after reorganization*



These four new Customs Office of Discharge will set the conditions for importers to use internal customs clearance procedures to their advantage because the importer can easily instruct the customs broker what amount of goods they wish to clear customs without delay or added expense.

### **8.9 Before and After: Combining the Components, Efficiencies, Information Technology, and the Young Regional Leader**

The actual process now looks like this. From the moment the goods enter the Customs Terminal the transporter must present himself to the Border Police and to the Customs Officer, both of which work from the same office according to Integrated Border Management (IBM). It is the Border Police that examine the

transport and vehicle documents. If all is in order then the transporter must present the Customs Officer with all of the goods documentation requested by the Customs Officer.

The Customs Officer enters all of the data into EP that include: importer, exporter, license plate, weights, value according to invoice, invoice number, seal number and so forth and in consultation with the transporter or the authorized representative of the importing company they designate the Customs Office of Discharge that will be used based on a unique four digit number assigned to each Customs Office of Discharge which is also in the computer system.

The accompanying documents are separated into a set of copies for each party; however the personal documents (i.e. passport and vehicle documents) of the transporter are not retained by the Customs Officer. These documents should remain with the transporter as it is not in our competencies to keep them.

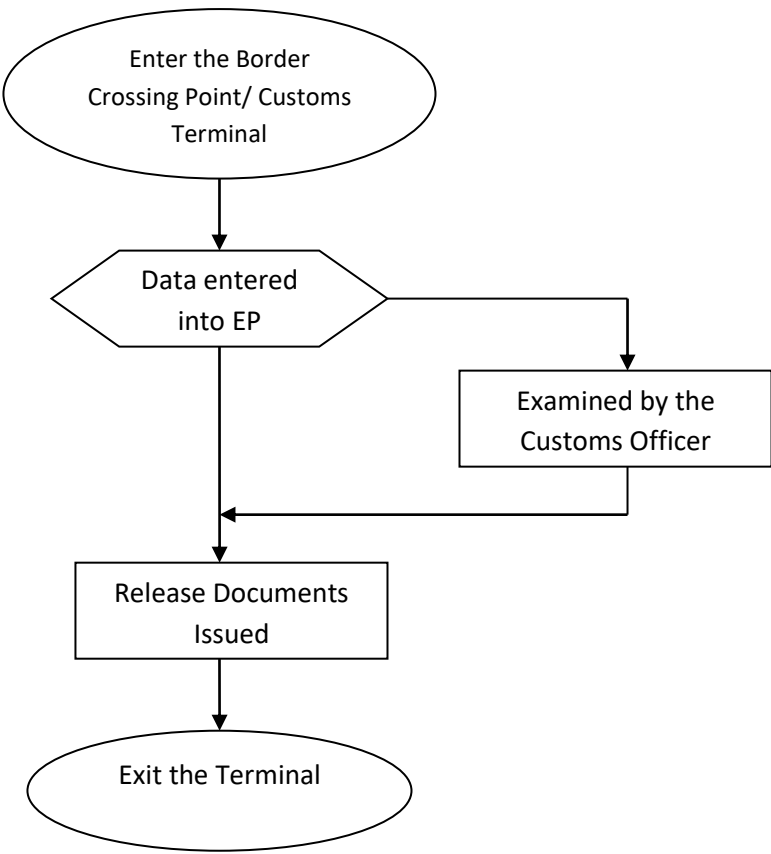
With the information input into the computer system and based on the information from the risk analysis sector located at Customs Headquarters in Prishtina, we are able to establish if the shipment falls into a high risk or low risk profile.

If it is low risk there is no need for an inspection and the transporter is instructed to proceed to the designated location. Even if the risk analysis sector does not profile the shipment as high risk, but the Customs Officer believes there is an issue he has the authority to examine the shipment. If the shipment is designated a high risk it is immediately inspected.

To illustrate how information technology together with the existing legal framework joined with our re-engineering efforts makes implementation of internal customs

clearance appropriate I will share with you the results of an interview with Mr. Bahri Berisha (19 December 2008) , the Director of Law Enforcement Directorate, who said: *“In 2008 we are the first in the region that together with the Customs Service of Macedonia to begin sharing information electronically by using the SEMS system covering goods that come from Macedonia are transited through that state where the final destination is Kosova. From the initial information we receive we are able to undertake a risk analysis based on the information we have in our intelligence, investigative and risk analysis sectors and at the moment when these goods enter Kosova we are ready to react with our anti-smuggling teams to control the shipment if necessary. This project will broaden to include more states which for us as a Customs Service makes it possible for us to begin risk analysis before the goods arrive.”*

**Fig. 12 Algorithm of the Customs Terminal Process once Internal Customs Clearance Procedures are Implemented**



This is the process we now see at the customs terminal. Customs clearing itself will occur at the designated Customs Office of Discharge while the goods can be warehoused at authorized Customs Warehouses until the importer decides to either clear the goods for release or to re-export them

According to this algorithm we see how the process goes at the Border Crossing Point Customs Terminal where the importing company exercises the opportunity to choose whether they will clear customs – i.e. pay the customs duties and taxes at the point of entry, or if they will complete that process later after the goods have been warehoused at Type A public customs warehouse, or in a private Type C or D warehouse.

After the shipment leaves the terminal the Customs Office of Discharge office is determined. The importing companies are obligated to uphold all terms and conditions that are described in the authorization for customs warehousing which is in this form with these fields See annex (add copy of documents there).

If the shipment is a low risk and there is no reason to physically inspect it is allowed to exit the terminal and to proceed to unload at a warehouse. A date and time is set for an inspection which requires removal of the seal. If the Customs Service team is not there within the specified time the importing company has the right to remove the seal and to store or sell the goods.

The Customs Service always retains the right to physically inspect shipments with Flexible Anti-Smuggling (FAST) Teams without any prior warning. Such activities requires adequate planning with is assisted and supported by the Intelligence, Investigative, External Auditing and other Sectors.

Goods stored in public and private warehouses do not have a legally designated time by which they are to be released into the free circulation and are not under any obligation to complete customs clearing procedures (duties and taxes) for the entire shipment all at the same time. This allows them to pay duties only on the portion of the shipment they choose and they are free to re-export the remaining shipment. This means that the goods will be released in the free circulation only when it is in the benefit of the importing company and only at that time are the import companies obligated to pay customs duties and taxes, and furthermore those goods can be sent to another customs warehouse. They can also undergo other customs regimes (procedures) for example, in Type C and D Customs Warehouses inward processing, outward processing, customs inspection, temporary import and so forth.

Paying customs duties and taxes and the release of goods into the free market is done in the Customs Office of Discharge which are designated in the authorization for customs warehousing and which has already been registered at the point of entry into the Evidence of Presentation program.

## 9. Recommendations

The time required to clear goods has become measure by which the international trading community assesses the effectiveness of a Customs administration.<sup>14</sup> In the case of Kosova, the time has come to implement Internal Customs Clearance Procedures even though 10 years after the end of the war Kosova is still rebuilding old and building new institutions.

Regional trends indicate to us that reducing the amount of time it takes to clear Customs, reducing the complexity of Customs Clearance Procedures and using information technology in increasingly creative and interactive ways is necessary to support business operating in this modern environment in order to support national economic development. In fact, implementation of Internal Customs Clearance Procedure sets the conditions for Kosova's movement towards European Union E-Customs initiatives.

The Customs Service has sponsored various research initiatives in order to better understand how to measure efficiencies and what to do when inefficiencies are identified – which in the case of Kosova, will continue to be a challenge because of the political and administrative realities we face.

The World Customs Organization has published a Guide to Measure the Time Required for the Release of Goods (WCO, 2002, pp 3) whose aim is to “determine where in the Customs process of clearing goods any problem exists, the type of problems, the reasons for these problems and the possible solutions to any problems.” Using this guide can at as a key performance indicator of sorts combined with other studies and research already done by the Customs Service.

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<sup>14</sup> The World Customs Organization frequently uses this logic. Many of their reports and documents reference this very point.

The results of these studies, resulting policy directives, and implementation activities should be shared with the public sector in order to inform and stimulate further economic development geared towards eventual EU membership.

Simply implementing Internal Customs Clearance Procedures based on the design I propose is clearly not the only opportunity the Customs Service has in terms of increased efficiency, continued regional leadership, and eventual EU membership – But, it is a good and feasible start.



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