

Bajrami, Etleva; Sharku, Gentiana

## Article

# Customs as facilitation of trade: Case of Albania

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## Customs as Facilitation of Trade. Case of Albania

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### Summary

*Economic cooperation and trade between countries of region is very important as a opening step for entering in big markets like EU-s. All agreements have a huge impact in customs administration for elimination of customs taxes and for facilitation of trade during customs crossing.*

*Trade integration is seen as faster way for countries to complete all necessary condition for European Integration. This process requires fulfillment of all reforms, needed for approaches the development and integration between countries. This process is spread in time because of the feature and difference between society and their economies. Regional economic integration is considered an import component for long-term integration of South Eastern European countries in EU. Membership of Albania in WTO brings a number of free trade agreements, with the main purpose trade liberalization. The essences of these agreements have been liberalization of customs tariffs for increasing foreign trade and attract foreign investors. The loss of customs income will be compensating from imports increasing and economic development in general.*

*The role of Customs has changed from one of a complete focus on revenue collection to a broad role encompassing components of revenue collection, trade facilitation and border security. Simplified customs procedures and documents are very important for improving relation of business and government and also improving business performance.*

*The aim of this paper is to point out the roles, responsibilities and challenges of customs, for concluding this we have conducted a survey for analyzing the performance of customs in Albania.*

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\* Ph.D., Faculty of Economy, University of Tirana, Albania.

\*\* Ph.D., Faculty of Economy, University of Tirana, Albania.

## Introduction

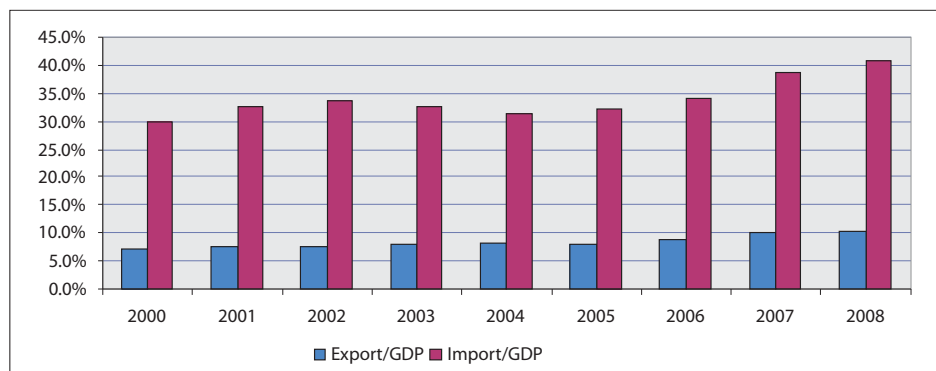
Customs has the responsibility of controlling cargo in order and improving trade facilitation in international trade. Customs contribute to the achievement of a number of national development objectives. Customs is often the first window through which the rest of the world views a country so it figures the perceptions of the individuals and organizations involved in making important trade and foreign investment decisions.

While the core roles and responsibilities of Customs have remained essentially the same for many years, the manner in which Customs administrations discharge these roles and responsibilities has changed significantly in recent times. The incentive for this change can be summarized as continued growth in the level of international trade and blast of regional trading agreements. Customs controls impose costs on traders and induce considerable frictions into cross border supply chains.

Albania signs in Brussels “Memorandum of Understanding for the Liberalization and Facilitation of Trade, FTA” in June 2001. In this agreement, contracting parties were regions countries with purpose of creation of a Balkan market. Thus, this was an arrangement for being part of the free trade area in region. These arrangements mean free movement of products, services and ideas.

Albania begins also the negotiation with European Union for signing SAA (Stabilization and Association Agreement). After signing the agreement in December 2006, enter in force Interim Agreement, which permit application of trade disposition of MSA. The impact of this disposition was immediately in foreign trade. So if we compare the imports from EU in last years, the increase in 2007 is larger than the increase in years before. Thereby, the increase of the import was 14.8% in 2007, is much more than 11.3% in 2006. In table 1, we demonstrate the flow of goods in percentage of GDP. This flow is positive, growing despite of this, our country continue to operate with significant trade deficits.

**Table 1.** Import and export in progress, in percent



Source: INSTAT

In last years the increase is slow down, because the decline of economy for the EU countries. This decline will reflect in import amount from EU countries and also in total import amount since the most part of the import comes from EU countries.

## **1. Roles and responsibilities of customs administration**

Customs administration is playing a critical role in implementing a wide rang of govern politics for achieving national objectives. Customs administrations are expected to accomplish objectives like increasing budget revenue, trade facilitation, and better security.

While primary responsibilities of custom administration have not changed significantly throughout the years, their focus and importance have changed dramatically. Increasing regional agreement trade brings growth in formal procedures, customs administration controls, importance of an administration without corruption, etc.

### **1.1. Customs as facilitator of legitimate trade**

Trade costs are being more and more important in foreign trade. Foreign trade is growing faster and faster and with that is growing and importance of customs procedures requirements, causing the cost for government and business.

Trade facilitation focuses on the simplification and rationalization of customs and other administrative procedures, in order to facilitate trading across borders. Effective trade facilitation will mean faster clearance and release of goods for importers and exporters.

Customs administrations must continually strive to maintain an appropriate balance between their often perceived to be conflicting or competing objectives of facilitating trade on one hand while enforcing laws to collect revenue and protect society on the other.

To maintain an appropriate balance, Customs must utilize increasingly sophisticated risk-management techniques to identify that small percentage of suspected high-risk cargo that needs to be scrutinized either prior to loading in the country of export, or at time of arrival in the country of import. Is critically important that Customs apply profiling or risk-management techniques on goods before their actual arrival in the country, given the limited time available of arrival to identify high-risk goods.

The need for simple and transparent documents, procedures and formalities to facilitate cross border transactions has long been recognized as for example in the revised Kyoto Convention of the World Customs Organization.

A key approach and recommended best practice by the International Monetary Fund and the WCO for enhancing trade facilitation and increasing revenue collection is shifting the compliance checks for importers maintaining suitable record systems from the pre-clearance stage to the post-clearance stage.

Post clearance audit is not widely used and applied as an integral part of a cohesive risk management process. If it was implemented Customs administrations may be able to increase revenue collection utilizing existing resources or a slight increase in some instances.

Albania have the least cost in region for customs procedure, while concerning the number of documents for exports which is 7, is following Bosnia-Herzegovina, Hungary and Serbia. The big number of documents for exports is followed by the big number of the day about 21 days for execute (The World Bank, Doing Business in Albania 2008). Another important aspect for foreign trade facilitation is customs infrastructure. It has been a huge investment in this aspect last years Albania.

Trade facilitation is important for because of contribution in increasing export, improvement of competition of products and services throughout in the global market. Trade facilitation attracts more IHD and intensifies participation of small and medium enterprises in foreign trade. Trade facilitation is tied with a wide variety of activities in custom like import and export procedures, transports formalities, payments, insures, etc.

## 1.2. The importance of customs revenues

Fiscal mission is one of the main missions of Albanian customs administration. This mission consists in collecting custom taxes from imports in Albania. Collection of VAT on imports constitutes another major source of budget revenue. Therefore, a control that ensures that all duties are assessed and paid has permeated customs, irrespective of whether this causes delays in the release of imports. With tariff rates declining over time, customs taxes as a share of the total budget revenues have also tended to decline in most countries. But still total customs revenues as a share of the total budget revenues tended to improve. Customs is the only organization positioned to effectively levy tax on imports and has a key role in assessing refunds on exported goods.

The role of Customs administrations is to raise substantial revenue, such role continue to be very important. Customs revenues remain a significant portion of total state revenue. This situation will continue for many years, despite declining tariff rates due to successive rounds of trade liberalization.

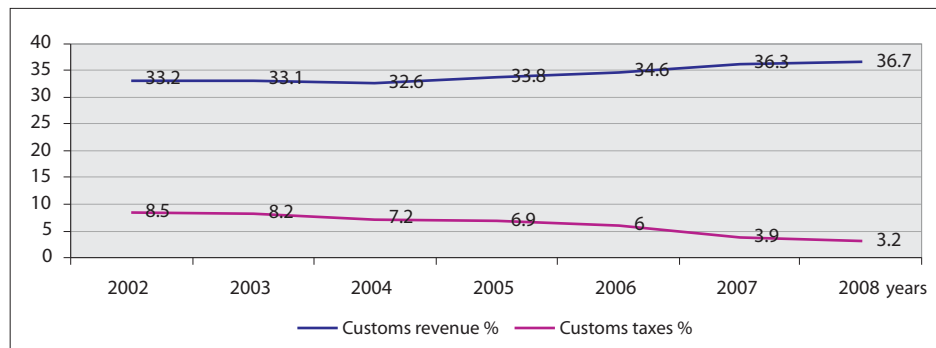
Customs revenues are increased from 34% of all taxes in 2005 to 37% in 2008 (MOF), these amounts are an important amount and reinforce the role of custom administration as collector of revenue.

The dynamic of custom revenue is changed. So revenues from tariffs are declining whereas revenues from VAT, etc are increasing. This situation will continue, because of declining tariff rates due to successive rounds of trade liberalization. The SAA agreement with UE countries will affect again these revenues and will decline tariffs more for many

**Table 2.** Customs revenues in years, in million ALL

Years	2002	2003	2004	2005	2006	2007	2008
Bugets revenue	154595	167224	184355	204163	229444	253795	283686
Customs revenue	51283	55394	60128	69026	79413	92254	104247
Customs revenue %	33.2	33.1	32.6	33.8	34.6	36.3	36.7
Customs taxes	13215	13643	13274	14103	13835	10013	9016
Customs taxes %	8.5	8.2	7.2	6.9	6.0	3.9	3.2

Source: Ministry of Finance and General Custom Directory.

**Figure 1.** Evolution of average customs revenue and customs taxes, in percent

Source: General Custom Directory

years. The impact of SAA will be vast because 66% of Albanian foreign trade is doing with UE countries (Albania 2007 Trade Report, USAID, ACIT, and ISB).

The average of customs tariff is declining more in 2007 because of Interim Agreement with UE in the early 2007. Tariffs will continue to decline gradually till 2011, where is decided to be 0.

Declining the tariffs will be a major contribute on the increase of the foreign trade and to the international competitiveness of nations.

### 1.3. Protecting domestic industry and society

Customs must ensure that import tariffs are applied consistently and uniformly to all traders to prevent economic distortions. Custom tariffs are used increasingly to protect domestic producers from unfair competition. Customs must ensure that imported goods are not misclassified, under or over-invoiced or given preferences or concessionary rates in tariffs due to their origin or other reasons. Customs must also prevent goods from being smuggled into the country. Customs is also called upon to protect domestic industry by applying anti-dumping duty and therefore causing economic injury to domestic producers.

Customs is also the primary agency responsible for ensuring that goods imported temporarily are re-exported, and not diverted and consumed inside the country, etc.

Protecting domestic industry in long term will forbid them to increase and to invest in new high technology, which causing cost declining. However our economy is still fragile and needs protection even season on one occasion.

The focus and responsibilities for Customs services around the world have been raised dramatically, with Customs not only being called on to control goods at the border, but also to play a key role in securing the entire international supply chain. This involves Customs being asked to certify low-risk traders who are known to be compliant, and legitimate traders who have the ability to secure their goods from the time of manufacture, through their export and transport to the country of import.

## 2. The results of the survey

Transparency of laws, procedures and national practices is widely accept as an essential element for realize efficiency and in the same time for improvement profit of trade liberalization and investments.

Transparency is essential in international trade to allow commercial operators and all interested parties to fully understand the conditions and constraints for entering and operating in a market.

Transparency gives the opportunity of knowledge of costs and profits of their activities and the necessary time for adoption with changes of the politics and economics situation.

Timely and accurate trade related information must be made easily accessible and readily available to all interested persons. Access to such information is essential to ensure predictability in the application and enforcement of these rules, as well as to promote voluntary compliance by traders with them.

Trade-related information that must be public include: Multilateral, bilateral, and regional trade agreements in force, including rules of origin for goods and value-added requirements for goods to qualify for the agreement's preferential rate of duty and tax; Customs and related laws, regulations, Customs procedures, standard operating practices, exemptions, rates of duty, tax, or other charges; requirements, restrictions or prohibitions on imports or exports or on the transfer of payments affecting their sale, distribution, transportation, insurance, warehousing, inspection, etc.

Customs laws, regulations, and requirements should be easily accessible, applied in a uniform and consistent manner to promote certainty and predictability in trade transactions for minimize the possibility of corruption practices. So an important aspect for business is the customs procedure quality.

In 2008 we complete a survey with 137 private businesses. All interviewed were transport and trading companies whose trucks have been crossing the border. In 77.4 percent of cases, respondents said that the Customs procedures are clear and only 22.6 percent of them said that the procedures are not clear.

Clarify of custom procedures is very important because business knowing them, are more prepared and fulfill all the necessary documentation before arriving in custom.

While we ask for their perception if custom service in general is clear and doubtless, almost 60 percent of the answers said no, and 40 percent of them said yes. From the survey we can concludes that the clearness of custom services is not in the right level.

Rules and procedures relating to trade should be simplified to ensure that they are no more burdensome or restrictive than necessary so as to achieve their legitimate

**Table 3.** In your opinion custom procedures are clear?

	<i>In percent</i>
Yes	77.4
No	22.6
Total	100.0

**Table 4.** In your opinion custom service is clear and doubtless?

	<i>In percent</i>
Yes	40.1
No	59.9
Total	100.0

**Table 5.** Are you treated equal with other company by customs?

	<i>In percent</i>
Yes	26.3
Mostly yes	50.4
Mostly not	13.9
No	9.5
Total	100.0

objectives. Rules and procedures should also be practicable and applied in an efficient manner.

Rules and procedures relating to trade should be applied in a manner that does not discriminate between or among like products or services or economic entities in like circumstances. This is based on one of the cornerstones of WTO, namely national treatment. This principle calls for even application of rules and procedures on both national and foreign entities and their products.

Rules and procedures relating to trade should be applied in a consistent, predictable and uniform manner with integrity so as to minimize uncertainty to the trade and trade related parties. Rules and procedures relating to trade should provide clear and precise procedural guidance to the appropriate authorities with standard policies and operating procedures and be applied in a non-discretionary manner.

Another question of our survey was; Are you treated equal with other company by customs? 76.7 percent of respondents were or were mostly treated on an equal footing with other companies by Customs.

The question; are you known with your rights and obligations towards the Customs? 86.8 percent of respondents were known with their rights and obligations towards the Customs.

From the answer of the surveys we can conclusion that some of the principles of the performance of customs are almost complete, but still is work to do. One of the principles of the customs performance is a service without corruption. As business and investment decisions by international companies are increasingly participate to global competition, the presence of widespread corruption in customs can act as a major disincentive to foreign investment. Corruption in customs takes on new significance in the current environment of heightened concern about the security of international trade. Customs administration is one of the most corrupt administrations in Albania. The presence of widespread corruption can, therefore, destroy the legitimacy of a customs



**Table 6.** Are you known with your rights?

	<i>In percent</i>
Yes	62.0
Mostly yes	24.8
Mostly not	9.5
No	6.6
Total	100.0

administration and severely limit its capacity to contribute to government objectives so is essential to combat customs corruption.

## Conclusions

While the core roles and responsibilities of Customs have remained essentially the same for many years, the manner in which Customs administrations discharge these roles and responsibilities has changed significantly in recent times. The drivers for this change can be summarized as continued growth in the level of international trade and proliferation of regional trading agreements. Customs controls impose costs on traders and induce considerable frictions into cross border supply chains.

The role of Customs has changed from one of a complete focus on revenue collection to a broad role encompassing components of revenue collection, trade facilitation and border security. Although tariff rates are declining over time and customs revenues as a share of the total budget revenues have also tended to decline, customs revenues remain a significant portion of total state revenue.

Customs must ensure that import tariffs are applied consistently and uniformly to all traders to prevent economic distortions. Custom tariffs are used increasingly to protect domestic producers from unfair competition.

Customs services play a key role in securing the entire international supply chain. This involves Customs being asked to certify low-risk traders who are known to be compliant, and legitimate traders who have the ability to secure their goods from the time of manufacture, through their export and transport to the country of import.

Trade facilitation focuses on the simplification and rationalization of customs and other administrative procedures, in order to facilitate trading across borders. Effective trade facilitation will mean faster clearance and release of goods for importers and exporters.

Given the limited time available at time of arrival to identify high-risk goods, it is critically important that Customs apply profiling or risk-management techniques on such goods before their actual arrival in the country.

Timely and accurate trade related information must be made easily accessible and readily available to all interested persons. Access to such information is essential to ensure predictability in the application and enforcement of these rules, as well as to promote voluntary compliance by traders with them.

Rules and procedures relating to trade should be simplified to ensure that they are no more burdensome or restrictive than necessary so as to achieve their legitimate objectives. Rules and procedures should also be practicable and applied in an efficient manner.

Rules and procedures relating to trade should be applied in a consistent, predictable and uniform manner with integrity so as to minimize uncertainty to the trade and trade related parties. Rules and procedures relating to trade should provide clear and precise procedural guidance to the appropriate authorities with standard policies and operating procedures and be applied in a non-discretionary manner.

Clarity of custom procedures is very important because business knowing them, are more prepared and fulfill all the necessary documentation before arriving in custom. From the survey we can conclude that the clearness of custom services is not in the right level. Most of respondents were known with their rights and obligations towards the Customs and were mostly treated on an equal footing with other companies by Customs. Anyway is still to do for transparency and clearness of the customs services.

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## Znaczenie obyczajów handlowych w rozwiązywaniu problemów współpracy ekonomicznej na przykładzie Albanii

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### **Streszczenie**

*Rozwój współpracy ekonomicznej i handlu między krajami regionu bałkańskiego jest istotnym czynnikiem inicjującym możliwości wejścia z produktami na duże rynki, np. krajów Unii Europejskiej. Jednym z etapów tego rozwoju jest poznanie międzynarodowych zwyczajów, reguł i uprawnień handlowych. Artykuł jest opisem wprowadzania tych zwyczajów w polityce handlowej Albanii.*