

CUSTOMS POLICY AND SHADOW PROCESSES: A STUDY ON UKRAINE'S SCRAP METAL INDUSTRY

Studying and understanding the relationship between Ukraine's customs policy and the dynamics of shadow processes can help to develop and implement effective measures to reduce shadow processes. Such measures include simplifying customs procedures, changing rules and tariffs, improving control, preventing corruption, etc.

The primary aim of this study is to elucidate how Ukraine's customs policy influences the dynamics of shadow processes, specifically in the scrap metal industry. By investigating the regulatory framework, tariff structures, and enforcement mechanisms, we seek to identify areas where policy adjustments can contribute to reducing shadow activities.

Ukraine's customs policy constitutes a comprehensive framework encompassing rules, tariffs, procedures, and regulations governing the movement of goods across its borders. The objectives of this policy include facilitating customs operations, safeguarding national interests, regulating foreign trade, and ensuring state security.

Customs and tariff regulation play a pivotal role in governing the trade of goods and services, as well as in bolstering the national budget. Effective regulation serves as a deterrent against illicit goods entering the market, augments government revenues through duties and taxes, and fosters domestic production while enhancing the competitiveness of local companies. The scrap metal market, for example, serves as a poignant barometer reflecting the evolving and often opaque economic landscape of Ukraine [1; 2; 3]. Historically, the scrap industry has been subject to varying degrees of tariff and non-tariff restrictions, owing to its susceptibility to illicit activities. Rampant corruption has heightened scrutiny over this sector, with numerous governmental bodies involved in its oversight.

Ukraine's customs policy adopts a free-trader approach, characterized by minimal or zero import duties and a lack of administrative restrictions. This policy aims to stimulate imports into the domestic market, encouraging trade and economic growth. Notably, Ukraine imposes zero import duties on scrap metal, with a few exceptions such as ferrous waste and scrap, which are subject to a 5% duty rate. To promote exports to the European Union (EU), Ukrainian companies exporting scrap metal can obtain the EUR.1 certificate by verifying the origin of their raw materials. This certificate significantly reduces the export duty rate, specifically from EUR 180 to EUR 3 per ton [4]. However, numerous entities unable to substantiate the origin of their materials have resorted to fraudulent documentation, enabling them to acquire the EUR.1 certificate through illicit means. Operational data for 2022-2023 indicate that approximately 45 thousand tons of scrap metal were exported to EU countries through the Volyn Customs under this scheme, resulting in a loss of UAH 350 million for the state [5].

The global awareness of environmental challenges in the steel industry has spurred international demand for scrap metal, including that sourced from Ukraine. This heightened demand has corresponded with a substantial surge in ferrous scrap prices. Over the years, the average export prices per ton of scrap metal have exhibited significant fluctuations, ranging from \$249.5 per ton in 2017 to \$388.0 per ton in 2021. Import prices have also demonstrated a similar trend but with more pronounced changes, with average import prices per ton of goods ranging from \$1006.95 in 2017 to \$32.99 in 2022. These fluctuations may be attributed to shifts in global market conditions and demand dynamics, which can influence the health and profitability of Ukraine's steel industry. Achieving equitable compensation at all stages of the scrap metal supply chain, from collection and sorting to processing and delivery, is pivotal for the market's sustainable development. Estimates suggest that profit margins can reach 15-20% at each stage, fostering business growth and planning.

Conclusions. This research underscores the intricate connection between Ukraine's customs policy and shadow processes, as exemplified by the scrap metal market. To curtail shadow activities, it is imperative to reform customs procedures, enhance tariff regulations, improve enforcement mechanisms, and combat corruption effectively. Moreover, aligning policy with international best practices in raw material forecasting and pricing is crucial for the health and stability of Ukraine's steel industry. Achieving fair remuneration at all stages of the scrap metal supply chain is essential for market sustainability and development. In summary, a well-informed customs policy is central to addressing shadow processes and promoting transparent and sustainable economic growth in Ukraine.

References:

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