



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 25 November 2013

16829/13

**UD 308
COEST 378**

COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 21 November 2013

to: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European
Union

No Cion doc.: SWD(2013) 487 final

Subject: Commission Staff Working Document
PROGRESS REPORT FURTHER TO THE COUNCIL CONCLUSIONS ON
CUSTOMS COOPERATION WITH THE EASTERN NEIGHBOURING
COUNTRIES

Delegations will find attached Commission document SWD(2013) 487 final.

Encl.: SWD(2013) 487 final



Brussels, 21.11.2013
SWD(2013) 487 final

COMMISSION STAFF WORKING DOCUMENT

**PROGRESS REPORT FURTHER TO THE COUNCIL CONCLUSIONS ON
CUSTOMS COOPERATION WITH THE EASTERN NEIGHBOURING COUNTRIES**

COMMISSION STAFF WORKING DOCUMENT

PROGRESS REPORT FURTHER TO THE COUNCIL CONCLUSIONS ON CUSTOMS COOPERATION WITH THE EASTERN NEIGHBOURING COUNTRIES

TABLE OF CONTENTS

1. INTRODUCTION	1
1.1. Council conclusions on customs cooperation with the Eastern neighbouring countries	1
1.2. Background.....	2
2. PROGRESS OVERVIEW PER PRIORITY AREA.....	3
2.1. Develop safe and fluid trade lanes	3
2.1.1. Facilitation on the basis of compliance.....	3
2.1.2. Improved coordination between border authorities	4
2.1.3. Accession to Common Transit	5
2.1.4. Assessment of the situation at the border.....	6
2.1.5. The Early Warning Mechanism	6
2.2. Promote risk management and the fight against fraud.....	7
2.2.1. Risk management	7
2.2.2. Exchanges of information	7
2.2.3. The fight against smuggling.....	8
2.3. Invest in customs modernisation in the region.....	10
3. ACCOMPANYING MEASURES	11
3.1. Explore the possible use of available assistance mechanisms	11
3.1.1. Customs 2013.....	11
3.1.2. Hercule II.....	11
3.1.3. The European Neighbourhood and Partnership Instrument.....	12
3.1.3.1. Twinnings	13
3.1.3.2. TAIEX	14
3.1.3.3. <i>EU Border Assistance Mission</i>	15

3.1.4. The Eastern Partnership.....	16
3.2. Strategic Frameworks with Republic of Armenia, Republic of Azerbaijan and Georgia	17
3.3. Continue the dialogue between the EU and Eastern neighbouring countries	18
3.3.1. EU-Republic of Moldova Working Group	18
3.3.2. EU-Russia Working Group	18
3.3.3. EU-Ukraine Working Group.....	18
3.3.4. Project Group on Exchanges of Information	19
3.3.5. High-Level Seminars.....	19
4. CONCLUSIONS.....	19

1. INTRODUCTION

The purpose of this document is to evaluate progress in the three priority areas identified by the Council of the European Union in the "Conclusions on the customs cooperation with Eastern neighbouring countries" (hereinafter 'Council Conclusions') adopted in the 3133rd Competitiveness (Internal Market, Industry, Research and Space) Council meeting in Brussels on 5 and 6 December 2011.

1.1. Council conclusions on customs cooperation with the Eastern neighbouring countries

The three priority areas identified in the Council Conclusions had been agreed in the high-level Seminars on Customs Cooperation at the Eastern Border of the EU, held in Budapest and Krakow in April and October 2011 respectively:

- developing safe and fluid trade lanes,
- promoting risk management and the fight against fraud,
- investing in customs modernisation in the region.

In this context, the Council invited the Commission and the Member States to cooperate with the Eastern neighbouring countries with a view to:

1. Developing safe and fluid trade lanes, in particular by:
 - giving support to the countries in the region in their preparations for the extension of the Common Transit Convention and the Convention on the simplification of formalities in trade in goods, which are powerful instruments for trade facilitation, for increasing the harmonisation of procedures and to convey economic integration;
 - considering assistance in the development of reliable and compatible authorised economic operators systems in the Eastern neighbouring countries and, later on, the mutual recognition thereof;
 - enhancing coordination at the border including the creation of fast lanes and the development of infrastructure where applicable;
 - supporting initiatives of Member States that facilitate speedy transportation of goods through the EU Eastern border.
2. Promoting risk management and the fight against fraud, in particular by:
 - cooperating in developing and improving risk management systems and methods of risk analysis, including in order to increase the performance in the application of security and safety measures and to prevent smuggling of highly taxed goods and valuation fraud;
 - developing exchanges of information on a sound legal basis to facilitate trade and strengthen risk management, beginning by studying needs, building on the experience of past and current schemes of information exchange such as pilot projects;

- organising joint actions targeting risk areas and/or identified illicit trade routes in the region;
 - stepping up actions to fight against smuggling of cigarettes and alcohol along the EU Eastern border;
 - launching a study to identify the information useful to exchange and the ways of transmission, to strengthen risk management and improve customs controls with a view to establishing safe and fluid trade lines as well as fighting fraud.
3. Fostering customs modernisation, in particular by:
 - assisting the countries in the region in capacity building, including development and implementation of customs modernisation strategies;
 - cooperating to facilitate convergence of customs legislation and procedures in line with the objectives of free trade area agreements currently negotiated or foreseen.
 4. Exploring the possible use of available assistance mechanisms for these purposes, such as:
 - Customs 2013 and its successor programme;
 - Hercule II and its successor programme; Under the European Neighbourhood and Partnership (ENPI) instrument: Twinning and other assistance projects, programmes for regional and trans-border cooperation, EU Border Assistance Mission.
 5. Seeking to prepare and adopt the Strategic Frameworks as instruments to strengthen the customs cooperation with Republic of Armenia, Republic of Azerbaijan and Georgia.
 6. Continuing the dialogue between the EU and Eastern neighbouring countries by setting up regular dedicated customs fora.

Finally, the Council invited the Commission to evaluate the progress achieved in the agreed priority areas and to report to the Council on this progress, in order for it to propose a follow-up to these actions, by the end of 2013.

1.2. Background

The identified priorities are directly linked to the EU's initiative, starting in the end of 2010, to introduce a structured approach, based on issues of mutual strategic interest, in customs cooperation with the Eastern neighbours. This approach led to Strategic Frameworks on Customs Cooperation (hereinafter 'Strategic Frameworks' or 'Frameworks'), endorsed with Russia (November 2010), Republic of Moldova (October 2011) and Ukraine (May 2012). A Strategic Framework was also proposed to Republic of Belarus in June 2011 but remains to be endorsed. The Frameworks are based on three interrelated priorities which are in line with those of the Council conclusions, namely:

- safe and fluid trade lanes;

- risk management and the fight against fraud; and
- investment in customs modernisation.

Working Groups have been set up with Russia, Republic of Moldova and Ukraine with a view to implementing the Frameworks. They consist of representatives of EU Member States (17 in the case of Russia, nine for Ukraine and five for Republic of Moldova), the Commission and the customs authorities of each of the partner countries.

These same priorities constitute the centrepiece of the EU's customs cooperation with its Eastern neighbours at the multilateral level, which takes the form of regular high-level conferences on customs cooperation at the Eastern border of the EU with the participation of all EU Member States, Candidate Countries, Republic of Armenia, Republic of Azerbaijan, Republic of Belarus, Georgia, Kazakhstan, Republic of Moldova, Russia and Ukraine. They were also reflected in the negotiations of the customs and trade facilitation chapters in the new bilateral agreements between the EU and Republic of Armenia, Georgia, Republic of Moldova and Ukraine, as well as in specific activities carried under the Eastern Partnership initiative.

2. PROGRESS OVERVIEW PER PRIORITY AREA

This section evaluates the progress achieved in each of the three priority areas identified in the Council Conclusions: a) safe and fluid trade lanes; b) risk management and the fight against fraud; and c) customs modernisation.

2.1. Develop safe and fluid trade lanes

The aim under this priority is to achieve maximum trade facilitation on the basis of operator reliability and compliance, with a focus on introducing modern, faster procedures and appropriate IT technologies and other infrastructures along the trade lanes to secure and facilitate trade, which includes reducing administrative burdens and costs linked to customs procedures for traders, and on fostering cooperation between border authorities.

The main focus of actions under this priority has been on facilitation on the basis of compliance, including cooperation in the area of Authorised Economic Operators, the development of cooperation between border authorities, and preparation for accession to the Common Transit. Assessments of the situation at the border and the Early Warning Mechanism are also part of this priority.

2.1.1. Facilitation on the basis of compliance

Practically all of the Eastern neighbours of the EU are in the process of setting up reliable operator systems. The possibility of mutual recognition, where relevant and appropriate, is set out in the Association Agreements negotiated or under discussion between the EU and Ukraine, Republic of Armenia, Republic of Azerbaijan, Georgia and Republic of Moldova. Having said this, the main characteristics and level of development of the Eastern neighbours' reliable trader schemes differ from the EU's Authorised Economic Operators (AEOs) to such an extent that the prospect of mutual recognition is bound to be a long-term process. The EU is consequently pursuing a three-fold approach:

- assessing jointly the Eastern neighbours' trade partnership programmes in comparison to the EU's,
- providing expertise, including through study visits,
- exploring the possibility of early benefits for EU AEOs as well as the long-term prospective for mutual recognition.

The Commission, in cooperation with Polish Customs and support from the Czech Republic, Finland, France, Germany, Lithuania, Romania and the United Kingdom, organised a Seminar on the AEO system for the EaP countries in Wroclaw from 26 to 28 September 2012. Beneficiaries received information on the principles and scope of the EU's AEO system and on the necessary steps towards the introduction and implementation of an AEO concept. The event also provided an opportunity to the EU to learn about the EaP countries' efforts in this area. It was agreed that EaP Countries will enhance these efforts, which requires setting up strategies, methodologies and road maps with business involvement; assistance from the Commission and Member States is essential.

Ukraine has initiated the drafting of a roadmap for the development of an AEOs system: the concept has been introduced in the new Customs Code but is not operational yet, pending the development of the relevant implementing provisions. The issue was discussed in the first two meetings of the EU-Ukraine Working Group on Customs Cooperation, where both sides agreed to exchange information on their respective schemes, to be followed by study visits to EU Member States, with the Commission offering assistance to develop Ukraine's AEO programme. Agreed next steps include an ad hoc EU mission to Kiev to identify existing gaps and propose legal and organisational solutions. The possibility to provide specific facilitation for EU traders as a first step towards a mutual recognition agreement will continue to be discussed.

Republic of Moldova is in the process of setting up its own AEO system. The country has proved receptive to the idea of early benefits for EU AEOs: in the second meeting of the Working Group on Customs Cooperation it was agreed that it would provide the Commission with a list of possible benefits that may be offered to EU AEOs, together with the latest legislation in force in this area, and would apply for study visits to EU Member States via TAIEX.

Cooperation with Russia in this area will be pursued via a specific expert group on risk management and AEOs. Until now the two sides have exchanged basic information on their respective AEO systems. The first meeting of the expert group is scheduled for the last quarter of 2013.

2.1.2. Improved coordination between border authorities

Given the significance of improved coordination between border authorities, efforts have been deployed on concepts such as integrated border management, one-stop-shop, or single window. In this respect, Ukraine has initiated the implementation of an Integrated Border Management Concept. Only Customs and Border Guards are present at border crossing points, and the time needed to cross the border has recently been reduced by half. The EU has expressed readiness to assist with the assessment and identification of cooperation areas once this implementation reaches the necessary level.

Republic of Moldova is in the process of implementing a Single Window concept at its borders, which is followed closely in the Working Group on Customs Cooperation. In this context, a study visit to the border crossing points of Medyka and Korczowa (Poland) was organised in November 2012, with the aim of demonstrating the implementation of the one-stop-shop and single window concepts.

In Russia, the Federal Customs Service received responsibility in 2011 for transport controls and for sanitary and phytosanitary documentary controls, thus reducing the number of authorities performing systematic controls at the border.

The implementation of joint controls may become feasible once the amendment process of the Schengen Code has been concluded. The amendment was discussed by the European Parliament in plenary in June 2013; it introduces the possibility for EU Member States to conclude bilateral agreements with neighbouring third countries on the establishment of shared border crossing points, whereby both parties carry out exit and entry checks in accordance with their national law on the territory of the other party. Shared border crossing points may be located on the territory of either.

At the multilateral level, a number of actions have been implemented within the Eastern Partnership Integrated Border Management Flagship Initiative (see point 3.1.6. below).

2.1.3. Accession to Common Transit

Accession to the EC-EFTA Conventions on a common transit procedure and on the simplification of formalities in trade in goods requires a substantial effort in terms of legislative alignment and technical preparation. These are all aspects that are regularly addressed within the respective working groups with the separate countries or by means of the corresponding cooperation and coordination mechanisms in the cases where the Strategic Framework approach has yet to be adopted. On the very practical level, the first step for countries interested in acceding to the Common Transit Convention is to reply to the transit questionnaire and to carry out a self-assessment of gaps between the national and the common transit system.

Republic of Moldova and Ukraine have completed both these actions. In the case of the former, the Commission has requested additional information. Once this has been received, a study visit to a Member State with relevant recent experience, possibly financed by TAIEX, may be envisaged. Foreseen EU support for Ukraine's accession to the Convention includes a fact-finding mission followed by a roadmap for accession.

The future of the process of Russian accession to Common Transit is in doubt, as it appears that Russia's preference is to build a transit system for the Eurasian Economic Community. An interconnection between the two systems remains a possibility which will continue to be explored. On the other hand, the Eurasian Economic Commission has at times enquired how its member states may accede to the convention¹. Also Belarus has approached the Commission to continue consultations on the possible accession.

A workshop titled "Towards the Common Transit Procedure Convention" was held in the framework of the Eastern Partnership (EaP) from 11 to 13 September 2013 in Warsaw

¹ Regarding the TIR Convention, Russia's Federal Customs Service has recently announced the termination of its contract with the national guaranteeing association, ASMAP, as of 1 December 2013. If no new association is empowered by that date, it will no longer be possible to use TIR Carnets, leading to a situation in which no facilitation regime exists, in trade between the EU and Russia.

with the aim of informing EaP countries on the requirements for accession to the Convention.

2.1.4. Assessment of the situation at the border

The evaluation project "Crossing of goods at the EU-Russia border" under the EU-Russia Common Space Facility was carried out in July-August 2012 by the consulting company HTSPE Ltd. The objectives of the Project included: (i) listing and description of import and transit procedures used; (ii) listing the number of controls; (iii) assessing the level of interaction among control agencies; (iv) description of how advance exchange of information facilitates trade and influences border crossing time. The Customs Services of EU Member States bordering Russia provided valuable support to the project.

The conclusions and recommendations of the report will be taken into account in the joint evaluation of the EU-Russia pilot project on exchanges of information (see point 2.2.2. below). The recommendations include improving communication between agencies on the same side of the border and across it, streamlining information systems, increasing automation of processes, introducing risk-based controls on the Russian side, and coherent collection and use of advance information.

In the meantime, there appears to have been an improvement in the congestion situation at the EU-Russia border. Between 2009 and 2012 the average length of time spent by lorries queuing at the border decreased by 30%, whereas average daily throughput (i.e. the number of lorries crossing the border) has increased by 23%.

EU MS bordering Russia	2009		2011		2012		change 2011-12		change 2009-12	
	T*	WT**	T	WT	T	WT	T	WT	T	WT
Estonia	146	35	178	35	208	24	17%	-33%	43%	-31%
Finland	782	3	910	6	852	6	-6%	-5%	9%	80%
Lithuania	178	8	239	10	249	6	4%	-44%	40%	-29%
Latvia	357	15	469	20	533	10	14%	-50%	49%	-34%
Poland	132	1	213	0	249	0	17%	80%	89%	-84%
TOTAL	133	14	152	14	164	10	8%	-31%	23%	-30%

* T: throughput, i.e. average daily number of lorries crossing the border from the EU into Russia

** W: waiting time, i.e. average daily waiting time per lorry, in hours

Source: Customs administrations of Estonia, Finland, Latvia, Lithuania and Poland

An assessment of the functioning of the EU-Ukrainian border was launched at the end of 2012, with the aim of obtaining: (1) an overview of the basic features, capacity and technical characteristics of EU-Ukraine border crossing points; (2) statistics on the development of lorry traffic, allowing the Working Group to identify problematic areas and recommend solutions. Next steps include analysing and supplementing collected data, defining weaknesses and making recommendations.

2.1.5. The Early Warning Mechanism

The implementation of the Early Warning Mechanism (EWM), one of the specific objectives of the Strategic Framework with Russia has been lagging behind. The EWM

was conceived as a means for each side to provide advance notification of situations that may disrupt trade flows and to propose practical solutions, and a first draft was presented to the FCS in July 2009. A working-level agreement on the text was reached in December 2011, after which the Commission completed the necessary procedures for College approval and presented the document to the Russian side for signature in March 2012. The FCS then indicated that, after consultation of the Foreign Ministry, signing the EWM was no longer in its competence but could only be done by the Eurasian Economic Commission.

2.2. Promote risk management and the fight against fraud

The aim under this priority is to develop strong risk management to detect and address the main types of illegitimate trade, including fiscal fraud and security and safety risks, more effectively. Cooperation, including on exchanges of information, may contribute to the improvement of risk management and, thereby, to added value in terms of security and safety, IPR enforcement, combating fraud and facilitating trade.

Actions under this priority have focused on the development of risk management, exchanges of advance customs information, and the fight against fraud, in particular smuggling.

2.2.1. Risk management

The development of risk management is one of the priority actions identified in the roadmaps for the implementation of the Strategic Frameworks with Republic of Moldova, Russia and Ukraine. The objective is to improve the administration and efficiency of selective customs control, leading to a reduction in the number of physical checks and, as a consequence, of clearance time. Effective risk management should ideally also result in fewer instances of WTO-incompatible valuation control practices, such as requesting importers for copies of export declarations or the use of minimum values.

A study visit to Republic of Moldova and Ukraine was carried out in the context of the Project group on exchanges of information (see point 2.2.2. below) to discuss the main characteristics and functioning of the two countries' risk management systems. Follow-up actions include the sharing of good practices via study visits to EU Member States, seminars, workshops and training.

Ukraine applies controls based on risk management and advance customs information provided by declarants. Ukraine has benefited recently from a number of workshops and study visits set up by EU Member States, the Commission and EUBAM, allowing it to become acquainted with EU best practices in the field.

Cooperation on risk management with Russia will take place in the context of the expert group on risk management and AEOs referred to in point 2.1.1. above.

2.2.2. Exchanges of information

A Project Group on exchanges of information between the EU and its Eastern neighbours was set up in 2012 with the participation of Ukraine, Russia, Republic of Belarus, Republic of Moldova and 15 Member States with the objective of identifying information to be exchanged and the possible ways of transmission so as to improve risk management

of the Eastern neighbours. It also seeks to assess the way in which this data would be used in the recipients' risk management systems as well as the expected results in terms of improved controls and trade facilitation.

The Group's work has built upon experience from past and current schemes of information exchange in which Member States and Eastern neighbours have been or are currently involved.

The following guiding principles have been agreed so far:

- a step-by-step approach, with an emphasis on sharing information (in the sense of providing access to it) rather than exchanging it,
- information exchanges should have clear objectives,
- they must not result in additional burdens to operators/customs authorities,
- a pilot project may be envisaged,
- an appropriate legal basis will be needed, providing for protection not only of personal, but also of commercial data.

In March 2013 the Project Group carried out an assessment of the Pre-Arrival Information Exchange System (PAIES) implemented by Ukraine and Republic of Moldova.

In terms of next steps, an options paper is currently being prepared looking into the possibility of setting up a pilot project for exchanges of information at the Eastern border of the EU.

The evaluation of the pilot project on transmission of advance transit information from the EU to Russia is also underway. This project, operated via the IT platform SPEED (Single Portal for Entry and Exit of Data) created by the Commission, has been implemented since January 2009.

As a first step, in December 2012 the Commission distributed questionnaires to the Member States participating in the pilot project, as well as to Russia's Federal Customs Service (FCS). While a majority of Member States have provided replies, the FCS has not. In the past, the FCS has claimed that the scope and quality of data are insufficient to be used for customs clearance. Also, the relevance vis-à-vis the pilot project of the obligation on traders to provide pre-arrival information implemented by the Customs Union of Russia, Republic of Belarus and Kazakhstan as of June 2012 will need to be assessed.

2.2.3. The fight against smuggling

The illicit trade in tobacco products has been constantly increasing in the EU in the past years. Neighbouring countries on the EU's Eastern border (Russia, Republic of Belarus and Ukraine) continue to be among the main countries of provenance of illegally traded (smuggled) cigarettes. Smuggling of alcohol is also a problem. The Commission presented two documents in order to address the problem of the illicit trade in the EU in the past two years:

1) an Action Plan to fight against smuggling of cigarettes and alcohol along the EU Eastern Border²;

2) a Communication to the Council and the European Parliament on Stepping up the fight against cigarette smuggling and other forms of illicit trade in tobacco products – A comprehensive EU Strategy, accompanied by an Action Plan³.

The issue of cigarette smuggling, including the decriminalisation of smuggling in partner countries was raised in the meetings of the Working Groups under the Strategic Frameworks with Russia, Republic of Moldova and Ukraine. The problem was also systematically raised at high-level meetings between Commission/OLAF officials with these countries, as well as in technical meetings under the bilateral institutional framework.

An OLAF Liaison Officer (LO) was posted to Kiev, Ukraine in August 2011 and has established good contacts with the authorities in Ukraine, Republic of Moldova and Republic of Belarus as well as initiated operational contacts with the Georgian authorities. As a result, in May 2013 OLAF signed an Administrative Cooperation Arrangement with Republic of Moldovan Customs which aims at strengthening cooperation in the fight against cigarette smuggling. A similar arrangement was signed in June 2013 with the Ministry of Revenue and Duties (MRD) of Ukraine: there is now very good cooperation on tracking and monitoring suspicious cigarette transports (by land and sea). Discussions are on-going with a view to signing further arrangements with Russia and Republic of Belarus.

In order to step up operational cooperation, the following actions have taken place in 2012-2013:

- an operational meeting (Warsaw, October 2012) to discuss smuggling in the Baltic Region and improve operational contacts. Russia, Republic of Belarus, Poland, Lithuania, Latvia and Estonia attended the meeting;
- a regional Joint Customs Operation (JCO ROMULUK) took place in 2013 co-organised by Romania and the Commission (OLAF and TAXUD) with the participation of Republic of Moldovan and Ukrainian customs, targeting cigarette and alcohol smuggling at the Romanian border with Ukraine and Republic of Moldova. The JCO was designed to allow participation by EUBAM and Frontex within their mandate. Overall the JCO was a useful and successful exercise in terms of enhancing the cooperation and improving information exchange, but repetition is needed to further develop cooperation.

Regarding capacity building and technical assistance:

- grants to co-finance technical equipment for the detection and investigation of illicit consignments of tobacco within the EU have been funded from the Hercule II

² June 2011, SEC(2011)791, accompanying the Commission Anti-Fraud Strategy.

³ June 2013, COM(2013) 324 final.

Programme. The Commission proposed an increase in the EU co-financing for the Hercule III, which is still under discussion in the Council. See further information under point 3.1.2.;

- discussions in the Land Frontier Contact Group about upgrading the automated licence plate and container code recognition tool infrastructure at the Eastern land border;

As a result of joint efforts by the Member States and the Commission, and according to available data⁴, the influx of illicit cigarettes from Eastern neighbours started to decrease in 2011 and 2012. The size of the illicit trade in the whole of the EU has however been increasing, for which reason the Commission presented an EU-wide strategy in June 2013 (see above). Under the new Strategy, the Eastern border and, in particular, cooperation with Russia, Ukraine and Republic of Belarus as major source countries will continue to have a special focus.

2.3. Invest in customs modernisation in the region

The aim is to achieve close convergence of legislation and procedures, and to strengthen the dialogue on rule-making and implementation. This should foster the improvement and streamlining of customs procedures and the development of fully-fledged risk management systems, and include capacity-building.

Under this priority, the focus has so far been on the convergence of legislation and procedures. In particular, Ukraine, Republic of Moldova, Georgia and Republic of Armenia have taken commitments in this area in the Association Agreement (AA)/Deep and Comprehensive Free Trade Area (DCFTA) negotiations with the EU. Commitments taken by Republic of Armenia will have to be reviewed due to its decision to join the Customs Union of Belarus, Kazakhstan and Russia. These agreements contain ambitious provisions on customs cooperation and trade facilitation, with the aim of ensuring that the parties' legislation and procedures, as well as the administrative capacity, fulfil the objectives of effective control and support facilitation of legitimate trade as a matter of principle. Negotiations with Ukraine were already completed in 2012, and the AA has been initialled: the customs and trade facilitation chapter covers *inter alia* the convergence of legislation and procedures, the elimination of fees and charges and the strengthening of cooperation. Negotiations of the AAs with Republic of Moldova, Georgia, Republic of Armenia were concluded this year, and with Republic of Azerbaijan (of which the latter does not include a DCFTA) are ongoing.

In the case of Russia cooperation in this area will be pursued via a specific expert group on legislative convergence. A number of areas have been selected for discussion: the first of these are customs valuation and transit, to be followed by risk management, AEOs, binding tariff information, customs declaration, temporary importation and outward processing. The first meeting of this expert group is scheduled for October 2013.

⁴ KMPG Project Star Report 2011, 2012, commissioned by Philip Morris International Management S.A. (<http://www.pmi.com>)

3. ACCOMPANYING MEASURES

This section evaluates the progress achieved in each of the three additional measures identified in the Council Conclusions as a means to support the implementation of the three priorities: a) explore the possible use of available assistance mechanisms; b) seek to prepare and adopt Strategic Frameworks with Republic of Armenia, Republic of Azerbaijan and Georgia; and c) continue the dialogue between the EU and Eastern neighbouring countries by setting up regular dedicated customs fora.

3.1. Explore the possible use of available assistance mechanisms

3.1.1. Customs 2013

The programme has financed a number of actions directly relevant to the implementation of the priorities identified. These include:

- EU-Russia Working Group on Customs Border Issues,
- Project Group on Exchanges of Information between the EU and the Eastern neighbours,
- EU-Republic of Moldova Working Group on Customs Cooperation,
- EU-Ukraine Working Group on Customs Cooperation,
- High-level Seminar on Customs Cooperation at the Eastern border of the EU "Dismantling Barriers", Kiev, Ukraine, 11-12 October 2012,
- High-Level Seminar on Customs Cooperation at the Eastern Border of the EU, Druskininkai, Lithuania, 24-25 October 2013.

3.1.2. Hercule II

Financial support through Hercule II enables operational field staff working in technical/operational support units and/or investigative units to improve and strengthen their capacities in the fight against irregularities, fraud and corruption.

It consists of:

- technical support for national authorities' use of special investigative tools and methods in the fight against fraud and corruption, and
- technical support to strengthen inspections of containers and trucks at the EU's external borders.

The second type of technical support is particularly relevant to the fight against cigarette smuggling, in particular the purchase of equipment for the detection of illicit consignments of tobacco products, such as X-ray scanners.

Financial support was provided in 2012-2013 for the purchase, training and housing of sniffer dogs as well as grants for the purchase of equipment and the development and implementation of software for Automated Number Plate Recognition Systems (ANPRS) in several Member States. The introduction of an integrated ANPRS by the three Baltic

Member States has enabled the detection of large amounts of smuggled cigarettes and tobacco, but has also contributed to fighting the evasion of excises on transport fuels by truck drivers. The X-ray scanners installed in airports or harbours as well as the large, mobile X-Ray scanners used at the EU's Eastern border led to the detection of large numbers of smuggled cigarettes and tobacco, together with other counterfeited and smuggled items.

Technical Assistance funded under Hercule II is available for national and regional authorities in EU Member States and, on certain conditions, to national and regional authorities in candidate countries and third countries.

3.1.3. *The European Neighbourhood and Partnership Instrument*

The European Neighbourhood and Partnership Instrument (ENPI) has been operational since 1 January 2007 and is the main source of funding for the 17 partner countries (including Republic of Armenia, Republic of Azerbaijan, Republic of Belarus, Georgia, Russia, Republic of Moldova and Ukraine). The overall allocation for the ENPI instrument amounts to almost €12 billion for the seven-year period 2007-2013.

The Cross Border Cooperation (CBC) component of the ENPI aims at reinforcing cooperation between member states and partner countries along the external border of the European Union and involves two types of programmes: bilateral programmes covering a common land border and multilateral programmes covering a sea basin. All programmes with the EU's Eastern neighbours belong to the former category.

CBC provides significant funding for cross-border infrastructure projects, including for the modernisation of a number of customs border crossing points, as shown in the table below.

Funding of modernisation of Border Crossing Points - EU Eastern Land Border, approved projects 2011-2012 (construction ongoing in 2013):

Programme	Project	€m
Kolarctic (Finland-Russia)	Reconstruction of the road Kandalaksha–Alakurtti– Salla Checkpoint (sector 100-130 km)	2,2
Karelia (Finland-Russia)	Development of the Traffic Lines in the International Cross-border crossing point Niirala, 1st phase	3,7
Karelia	Widening of Road 89 Vartius-Paltamo; road stretches 10-13 and 13-17	5,0
Karelia	626/2011 Reconstruction of Ikhala-Raivio-State border Automobile Road, km 0-km 14	3,7
Karelia	625/2011 Repair of Automobile Road Loukhi-Suoperya, km 110-km 160	4,0
South-East Finland-Russia	Nuijamaa Border Crossing Development	3,0
SE Finland-Russia	Nuijamaa Border Crossing Development, Phase II	1,1
SE Finland-Russia	Reconstruction of an Ikhala-Raivio-State border Automobile Road, km 14-km 28	4,0
SE Finland-Russia	Imatra Border Crossing Development	14,0
SE Finland-Russia	Development of Imatra-Svetogorsk Int'l Automobile Cross-Border Point and its approach roads.	7,6
SE Finland-Russia	Vainikkala - Simola Road Rehabilitation	6,8
SE Finland-Russia	Reconstruction of the automobile Border Crossing Point Svetogorsk	9,5

Estonia-Latvia-Russia	Improvement of traffic and border crossing possibilities in Väraska-Pechory monastery road- SAFE	6,5
Estonia-Latvia-Russia	Complex reconstruction border crossing points in Ivangorod (Russian) and Narva (Estonia)	8,3
Estonia-Latvia-Russia	Reconstruction of border checkpoint "Vientuli" (LV), arrangement of border checkpoint "Brunishevo" (RU)	6,4
Latvia-Lithuania-Belarus	Construction and Equipment of border crossing point 'Privalka' (BY-LT): introduction of non-intrusive inspection technology	2,8
Latvia-Lithuania-Belarus	Construction and Equipment of border crossing point 'Grigorovshchina" (BY-LV): introduction of non-intrusive inspection technology	2,8
Latvia-Lithuania-Belarus	Construction of Svendubre Seasonal River Border Crossing Point and Bugieda Berth	3,5
Lithuania-Poland-Russia	Reconstruction of the Section of the Motor Road "Kaliningrad–Mamonovo II (Novoselovo village) – PL	10,0
Lithuania-Poland-Russia	Construction of Panemunė and Sovetsk by-pass with a Bridge over Neman River	27,3
Poland-Belarus-Ukraine	Development of modern border guard section infrastructure	8,8
Poland-Belarus-Ukraine	Infrastructural development of Połowce-Pieszczatka road border crossing - Stage III (PL-BY) - povait of Hajnówka RP-Brest district RB	5,4
Poland-Belarus-Ukraine	Construction of road border crossing at Dolhobyczow	5,6
Poland-Belarus-Ukraine	Construction of the exit as part of the construction of the road border crossing Budomierz - Hruszew	8,3
Poland-Belarus-Ukraine	Construction and instrumentation of road border checkpoint Peschatka	12,1
Poland-Belarus-Ukraine	Reconstruction of international automobile border crossing point (IABCP) "Ustylug"	5,5
Poland-Belarus-Ukraine	Creation of functional module "filter of the border crossing point" in the international automobile border crossing point (IABCP) "Rava-Ruska" providing with equipment and facilities border crossing points "Krakivets", "Shegini" and "Yagodin"	2,2
Poland-Belarus-Ukraine	Construction of relocatable X-ray scanning control system of vehicles on road checkpoint "Bruzgi"	2,7
Poland-Belarus-Ukraine Programme	Development of IT Infrastructure of Ukrainian Customs and Border Guards Services at UA-PL border	2,7
Hungary-Slovakia-Romania-Ukraine	Efficient and Secure Borders between Romania and Ukraine	7,7
Hungary-Slovakia-Romania-Ukraine	Modernisation and Reconstruction of Border Crossing Points at the Slovak-Ukrainian border	7,6
Hungary-Slovakia-Romania-Ukraine	Efficient and secure border between Hungary and Ukraine	7,6
Romania-Ukraine-Moldova	IMPEFO - IMprovement of cross-border cooperation between MD and RO on PETroleum and FOod products	3,4
Romania-Ukraine-Moldova	Development of Border Infrastructure between Ukraine and Romania	3,9
		215,7

3.1.3.1. Twinning

Twinning programmes, originally designed by the Commission to help candidate countries acquire the necessary skills and experience to adopt, implement and enforce EU

legislation, have been available to the EU's Eastern neighbours since 2003. The following customs-related twinings have been initiated or planned over the past two years:

Republic of Armenia: "Support to the State Revenue Committee for strengthening of Customs control procedures and enforcement in the Republic of Armenia", partners: Lithuanian and Finnish Customs, June 2012 – June 2014, €1 million.

Georgia: "Strengthening the National Customs and Sanitary-Phytosanitary Border Control System", partners: Italian, Danish and Estonian Customs, October 2012 – April 2013, €1,8 million.

Ukraine: three customs-related twinings are currently under consideration:

- Strengthening the administrative capacity of the State Customs Service of Ukraine through approximation of procedures and standards with the EU acquis and the Revised Kyoto Convention,
- Support to the State Customs Service of Ukraine in the development of post-clearance audit control,
- Support to Ukrainian Customs (Ministry of Revenue and Duties) in the development of Integrated Border Management.

3.1.3.2. TAIEX

TAIEX, the Technical Assistance and Information Exchange, supports partner countries, including Republic of Armenia, Republic of Azerbaijan, Republic of Belarus, Georgia, Republic of Moldova, Russia and Ukraine, with regard to the approximation, application and enforcement of EU legislation. TAIEX facilitates, in a demand-driven manner, the delivery of appropriate tailor-made expertise to address issues at short notice.

The following customs-related TAIEX activities have been carried out with the Eastern neighbours in the past two years:

Republic of Armenia

- Expert Mission on Legislation on Tobacco and Alcohol, July 2011, Yerevan

Republic of Azerbaijan

- Expert mission on EU Customs Legislation, started April 2012, Baku

Republic of Belarus

-Workshop on the use of Data Mining Technologies in the field of Customs, November 2013, Minsk

-Workshop on Risk Analysis in the Customs, October 2013, Minsk

-Workshop on smuggling in airports, August 2013, Minsk

- Workshop on Transport control in Republic of Belarus, May 2013, Minsk

- Workshop on integrity in public institutions, April 2012, Minsk
- Workshop on Pre-Entry Classification, March 2012, Minsk
- Workshop on corruption prevention and fighting, October 2011, Minsk
- Workshop on pre-arrival informing system, June 2011, Minsk

Georgia

- Workshop on new GSP Rules of Origin of the EU, October 2011, Tbilisi
- Expert Mission on Foreign Trade Indices Methodology and Staff Training, October 2011, Tbilisi
- Expert Mission Georgia-EU DCFTA Preparatory Process, January 2011, Tbilisi

Republic of Moldova

- Workshop on performance management system in Customs, September 2012, Chisinau
- Workshop on Combating Money Laundering and Financial Crime, September 2011, Chisinau

Ukraine

- Workshop on Classification of Goods, May 2013, Kiev
- Workshop on Tax Assessment of Financial Institutions, December 2012, Kiev
- Workshop on Post-Clearance Audit, November 2012, Kiev
- Workshop on Tax Accounting and Tax Assessment of Capital Issues and Corporate Rights, October 2012, Kiev
- Workshop on risk management in customs procedures, September 2012, Kiev
- Workshop on Value Added Tax Refund, September 2012, Kiev
- Workshop on Value Added Tax in Agriculture, June 2012, Kiev
- Expert Mission on approximation of the national excise legislation to the EU acquis, March 2012, Kiev

3.1.3.3. EU Border Assistance Mission

The European Union Border Assistance Mission to Republic of Moldova and Ukraine (EUBAM) was launched on 30 November 2005 following a request made jointly to the European Commission by Ukraine and Republic of Moldova. Fully funded by the European Union within the context of the European Neighbourhood and Partnership Instrument, and with the United Nations Development Programme (UNDP) acting as implementing partner, EUBAM is an advisory, technical body mandated to enhance the border-management capacities of the two partner countries.

Headquartered in Odessa and with six field offices on either side of the Republic of Moldova-Ukraine border, EUBAM - Phase 9 (2011 – November 2013) has a budget of € 21 million , approximately 100 seconded and contracted staff mostly from EU Member States, and more than 120 national staff of Republic of Moldova and Ukraine. Its mandate has already been extended three times (in 2007, 2009 and 2011), with the current mandate expiring on 30 November 2015.

The budget allocation for EUBAM-Phase 10 (2 years) amounts also to €21 million. It is foreseen that IOM will be the new implementing partner.

EUBAM has played an active role in supporting the implementation of the Strategic Frameworks with Republic of Moldova and Ukraine as well as the work of the Project Group on exchanges of information, providing both specialised expertise and logistical support.

3.1.4. The Eastern Partnership

Under the multilateral track of the Eastern Partnership (EaP), Customs cooperation takes place in the context of the EaP Integrated Border Management (IBM) Flagship Initiative and of Platform 2 (Economic integration and convergence with EU policies).

The overall objective of the IBM Flagship Initiative is to facilitate the movement of persons and goods across borders in the EaP countries, while at the same time maintaining secure borders through the enhancement of inter-agency cooperation, bilateral and multi-lateral cooperation among the target countries, EU Member States and other international stakeholders.

The following projects are funded under the 2011 and 2012 IBM Flagship budget allocations (12,5 million euro):

- Strengthening Surveillance Capacity on the green and blue border between the Republic of Belarus and Ukraine
- Enhancement of the border management capabilities at the Ninotsminda-Bavra border crossing point between Georgia and Republic of Armenia
- Provision of equipment and infrastructure for the border crossing points Bagratashen-Sadahklo between Republic of Armenia and Georgia and enhancement of their capacities
- Support to the creation of an electronic system of pre-arrival information exchange between the Customs authorities of the Republic of Republic of Belarus and Ukraine

The following projects are expected to be funded under the 2013 IBM Flagship budget allocation (€ 29 750 000) (Commission decision on this will be taken by the end of November)

- Strengthening Surveillance and Bilateral Coordination Capacities at the Republic of Belarusian-Ukrainian Border with a Particular Focus on the Central and Western Areas;
- Construction of the Jointly Operated Border Crossing Point Palanca (Republic of Moldova);

- Introduction of advanced integrated border management between Georgia and Republic of Azerbaijan (project currently postponed);

Integrated Border Management – Capacity Building Project – second phase

Also, the previous EaP IBM Flagship Initiative Training Project (2011 – June 2013) provided training to customs officers and border guards of the Eastern partners in five main areas:

- Design and implementation of IBM strategies and action plans (in most of the partner countries such strategies have been already formulated and, in some cases, adopted);
- Document integrity and security, detection of forgeries and imposter recognition;
- Risk analysis for customs officers and border guards;
- Detection of smuggled goods;
- Protection of intellectual property rights.

The Work Programme of the EaP Platform 2 on "Economic Integration and Convergence with EU Policies" foresees a number of actions supporting customs modernisation processes, with the aim of achieving close convergence of legislation and procedures between the EU and EaP countries, and creating compatible customs environments for traders.

Activities carried out in 2012-2013 include a seminar on Authorised Economic Operators (Wroclaw, September 2012, see point 2.1.1.), the seminar "Customs representation. Objectives and experience" (Brussels, November 2012) and the workshop "Towards the Common Transit Procedure Convention" (Warsaw, September 2013, see point 2.1.3.).

3.2. Strategic Frameworks with Republic of Armenia, Republic of Azerbaijan and Georgia

The priorities set out in the Strategic Frameworks are of most direct relevance to customs cooperation with the EU's direct land neighbours, and this is why Frameworks have first been proposed to Russia, Ukraine, Republic of Moldova and Republic of Belarus. Having said this, these same priorities are also at the basis of multilateral customs cooperation between the EU and its Eastern neighbours, exemplified in the high-level seminars (see point 3.3.5. below) in which Republic of Armenia, Republic of Azerbaijan and Georgia participate actively. Also, customs cooperation between the EU and these countries will be further enhanced once the respective AAs and/or DCFTAs, with their ambitious customs and trade facilitation chapters, will come into force.

To conclude, although Strategic Frameworks have not so far been concluded with Republic of Armenia, Republic of Azerbaijan and Georgia, this possibility is not excluded for the future.

3.3. Continue the dialogue between the EU and Eastern neighbouring countries

The Council conclusions called for the continuation of the dialogue between the EU and its Eastern neighbours by setting up regular dedicated customs fora.

In 2012 the Commission set up Working Groups on Customs Cooperation with Republic of Moldova and Ukraine, with the participation of Member States on a voluntary basis, with a view to implementing the respective Strategic Frameworks. A similar Working Group will be set up with Republic of Belarus once the respective Strategic Framework has been agreed. The EU-Russia Working Group on Customs Border Issues has been in existence since 2007. Also in 2012, the Project Group on exchanges of information between the EU and its Eastern neighbours was set up with the objective of identifying information that could be exchanged in order to improve risk management and facilitate trade between the EU and its Eastern neighbours.

3.3.1. EU-Republic of Moldova Working Group

The Working Group has met twice so far: on 19 April 2012 in Chisinau, and on 14 and 15 November 2012 in Przemyśl (Poland). It is composed of representatives of five Member States (Germany, Lithuania, Poland, Romania and the United Kingdom), Republic of Moldovan Customs, EUBAM and the Commission.

Discussions have focused on trade facilitation on the basis of operator reliability, strengthening the dialogue on the fight against fraud, and Republic of Moldova's accession to the Common Transit Convention.

3.3.2. EU-Russia Working Group

This Working Group met once in 2012 (Moscow, 5 July) and in 2013 (Brussels, 18 June). Besides the Commission and the Federal Customs Service, it counts with the participation of 17 Member States (Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Italy, Latvia, Lithuania, the Netherlands, Poland, Romania, Slovakia and Sweden).

Discussions have focused on the EWM, facilitation of procedures on the basis of operator reliability, cooperation on risk management, the pilot project on exchanges of advance transit information and cooperation on transit issues.

3.3.3. EU-Ukraine Working Group

The first meeting of the Working Group was held in Kiev on 23 October 2012. The second meeting took place in Przemyśl (Poland) on 20 and 21 June 2013. Membership includes Ukraine's Ministry of Revenue and Duties (Customs), nine Member States (Bulgaria, Finland, Hungary, Italy, Latvia, Lithuania, Poland, Romania and Sweden), EUBAM and the Commission.

Discussions have focused on improved coordination between border authorities, the development of risk management and AEO, the fight against fraud, the promotion of integrity, and accession to the Common Transit Convention.

3.3.4. Project Group on Exchanges of Information

The Project Group has met twice so far: in Brussels on 14 September 2012 and in Chisinau and Odessa from 5 to 7 March 2013. It is composed of representatives of 15 Member States (Belgium, Bulgaria, Estonia, Finland, Greece, Hungary, Italy, Latvia, Lithuania, the Netherlands, Poland, Romania, Slovakia, Sweden and the United Kingdom), the Customs administrations of Republic of Belarus, Republic of Moldova and Ukraine, and the Commission. Russia, although invited, has declined to participate so far.

For details on the work of the Project Group please see point 2.2.2. above.

3.3.5. High-Level Seminars

A high-level Seminar on Customs Cooperation was held in Kiev on 11 and 12 October 2012, with the participation of the Directors-General of Customs of EU Member States, Candidate countries and the Eastern neighbours. The event built on the achievements of previous high-level seminars (Imatra 1999, Kiev 2005, Muonio 2006, Vienna 2008, Budapest and Krakow 2011) and resulted in conclusions on specific actions to be undertaken by the Eastern neighbours in order to achieve progress on:

- convergence of customs legislation and procedures,
- development of AEO systems, and
- improvement of risk management systems and methods of risk analysis (including with regard to valuation fraud and smuggling of high-tax goods).

The last high-level Seminar took place in Druskininkai, Lithuania, on 24 and 25 October 2013, where the Eastern neighbours reported on the three actions above, and conclusions were adopted on risk management and exchanges of information, neighbouring countries' accession to the Common Transit Convention and the fight against smuggling of high-value goods.

4. CONCLUSIONS

As this report shows, substantial progress has been achieved over the last two years in implementing the priorities set out in the Council Conclusions. Having said this, customs cooperation between the EU and its Eastern neighbours is a long-term and, to a certain extent, an open-ended process.

The three priorities are interrelated and need to be implemented in parallel, in view of the mutual interest of the EU and its Eastern neighbours in economic integration, customs modernisation and convergence in line with international standards, and in order to fulfil the objectives of effective control and of facilitation of legitimate trade.

Efforts will continue in order to fully implement the Strategic Frameworks with Russia, Ukraine and Republic of Moldova as well as with Republic of Belarus, once it has been adopted, primarily through the Working Groups set up for this purpose. Scope of customs cooperation with Armenia will have to be reviewed, taking into account its decision to join the Customs Union of Belarus, Kazakhstan and Russia and Armenia's revised cooperation agenda with the EU. Multilateral activities will also continue to be

pursued, including through the Eastern Partnership, the high-level Seminars on customs cooperation at the Eastern border of the EU, and the Project Group on exchanges of information.

Support and active participation from Member States have been and remain indispensable. In particular, Member States have made an invaluable contribution to the activities described in the report by volunteering experts from their respective customs administrations to actively participate in the Working Groups set up with individual countries as well as in multilateral activities. Member States have also provided the Commission with information on their bilateral cooperation and contacts with the Eastern neighbours, which has been and remains of fundamental importance in order to ensure transparency and efficient management of resources at the EU level.

The Commission is looking forward to continuing this fruitful cooperation in the years to come and to working together with the Council in order to identify concrete follow-up actions with this view.