

## ANALYSIS OF CASES OF FRAUDULENT EVASION OF CUSTOMS DUTIES IN THE EUROPEAN UNION

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### Summary

The article investigates customs duties evasion in the EU, emphasizing its impact on the EU's financial stability and market integrity. Utilizing literature analysis, systematization, generalization, and content analysis of secondary data, the study identifies the significance of customs duties for the EU budget and outlines a typology of commercial customs fraud. Key fraudulent practices include valuation fraud, misclassification, smuggling, and falsification of origin. The findings highlight the need for a comprehensive strategy involving advanced technology, international cooperation, legal reforms, and public awareness to combat evasion and protect the EU's financial interests and trade integrity.

**Keywords:** customs, customs duties, customs fraud, evasion, fraud.

### Introduction

Customs duties evasion poses a significant challenge to the European Union (EU), leading to substantial financial losses and undermining market integrity. The research underscores the importance of customs duties for the EU's economy and highlights various fraudulent practices, such as valuation fraud, misclassification, and smuggling, which result in revenue loss. To combat these issues, a multifaceted approach involving advanced technologies, international cooperation, and stronger legal frameworks is essential. Enhancing consumer education on the risks of counterfeit goods is also crucial. Addressing customs fraud is key to safeguarding the EU's financial interests and maintaining fair trade practices.

In addition to these measures, the EU must prioritize the development and implementation of more effective customs control and monitoring systems. Utilising data analytics and machine learning can offer powerful tools for identifying patterns indicative of fraudulent activities, allowing for quicker and more accurate detection of customs evasion. Furthermore, promoting closer collaboration between EU member states and external trade partners can enhance the ability to track and intercept illegal goods across borders.

The role of public-private partnerships should also be emphasized, as engaging with businesses and trade associations can provide valuable insights and resources for combating customs fraud. These partnerships can facilitate the sharing of best practices and technologies, as well as improve compliance and reporting mechanisms.

Finally, revisiting and reinforcing the legal penalties for customs fraud can serve as a significant deterrent. Stricter penalties, combined with a higher likelihood of detection, can reduce the incentives for engaging in fraudulent activities. In parallel, the EU should work on streamlining and simplifying its customs procedures to minimize administrative burdens for legitimate traders, thereby encouraging compliance and facilitating international trade.

Collectively, these strategies underscore the need for a comprehensive and dynamic approach to tackling customs duties evasion. By addressing the issue from multiple angles—technological innovation, international cooperation, legal enforcement, public awareness, and private sector engagement—the EU can strengthen its defences against customs fraud, protect its financial interests, and ensure a fair and competitive market for all stakeholders.

**Research aim:** to identify the different types of customs duties evasion in EU.

The following **objectives** have been set to achieve the aim:

1. To highlight the importance of customs duties for the EU budget revenue.
2. To identify the typology of commercial customs fraud.
3. To analyse cases of customs duties evasion and identify the most common types of customs duties evasion in EU.

### Research object and methods

**The object of the present research** is customs duties evasion.

**The research methods.** In order to reveal the importance of customs duties, scientific and other literature analysis, systematisation and generalisation research methods were applied, as well as statistical information was analysed. In order to identify and analyse cases of customs duty evasion, secondary data sources were selected for analysis – previous empirical researches conducted, previous studies of EU organisations and other sources. The method of content analysis was used for the case analysis, the obtained results were compared and summarised, findings and interpretations were presented.

### Research results and discussion

The customs duties are described as part of the EU resources system (Cakoci, 2022). The significance of customs duties is reflected in several aspects – free movement of goods, single market, economic growth, international trade (European Commission, 2022; Cakoci, 2022).

In 2022, from collected import customs duties (33.6 billion Euro) the 25.2 billion Euro were transferred to the EU budget (European Commission, 2022). The contribution of customs duties increased each year (see Table 1) which is about 25% of EU GDP (European Commission, 2022; Cakoci, 2022).

**Table 1.** Customs duties in EU  
*1 lentelė. Muitinės mokesčiai ES*

Year <i>Metai</i>	2020	2021	2022
Contribution of customs duties to the EU budget	17.2 million EUR	18.6 million EUR	25.2 million EUR
Share of unpaid customs duties	2.0%	2.1%	2.3%

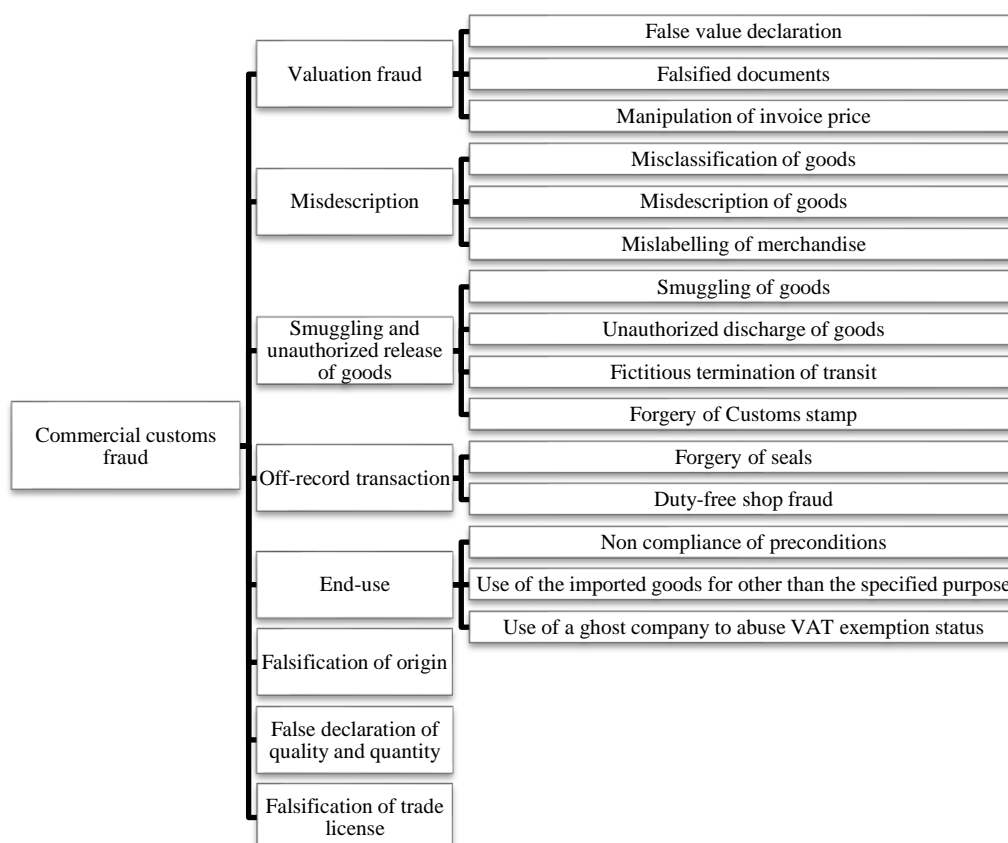
Source: created by authors according to European Commission (2022)

*Šaltinis: sudaryta autorių European Commission (2022)*

As shown in Table 1, the contribution of customs duties to the EU budget increased by about 47% between 2020 and 2022. As a result, the share of unpaid customs duties in total customs duties collected increased, but not significantly. It increased by only 0.3 percentage points.

Customs authorities are responsible for the collection of customs duties, but they also have other objectives, such as the supervision and control of international trade (Cakoci, 2022). Kim et al. (2020) noted that economic operators of imported and exported goods may manipulate customs declaration details to avoid customs duties. Although many efforts have been made to modernise the EU's customs legislation, problems persist, such as the undervaluation of goods to avoid customs duties and the smuggling of illegal or dangerous goods (Cakoci, 2022). The majority of evasion of customs duties is related to the classification of customs based on the Harmonized System (HS), as customs duties amount depend on these codes (Kim et al. (2020).

According to the World Customs Organisation (2010), customs evasion can occur under different circumstances and conditions. Cases of commercial customs fraud indicate a high level of revenue loss. The study conducted by the World Customs Organizations identified the types of cases of customs tax evasion (see Fig. 1).



Source: created by authors according to World Customs Organisation (2010)

*Šaltinis: sudaryta autorių pagal World Customs Organisation (2010)*

**Fig. 1.** The typology of commercial customs fraud  
*1 pav. Komercinio sukčiavimo muitinėje tipologija*

The typology of commercial customs fraud (see Fig. 1) illustrates the complexity and diversity of fraudulent activities challenging customs authorities globally. These fraudulent practices not only undermine the integrity of

international trade systems but also result in significant revenue losses for governments and can harm legitimate businesses by creating unfair competition.

According to the World Customs Organisation (2010), valuation fraud usually involves evading customs duties by manipulating the value of goods in the invoice or customs declaration and falsifying documents (see Fig. 1). Valuation Fraud represents a critical area of concern, with underreporting of goods' value being a prevalent method for evading customs duties. This type of fraud directly impacts government revenue and distorts market competition by allowing fraudulent importers to undercut prices offered by legitimate businesses (Triepels, Daniels & Feelders, 2018).

Misdescription of Goods (see Fig. 1) is another sophisticated fraud technique, involving the inaccurate description of goods to exploit lower tariff classifications. This not only leads to revenue loss but can also bypass health, safety, and environmental protections (Kim et al., 2020).

One of the customs areas of border control is related to the smuggling of goods and the unauthorised release of goods (see Fig. 1). Smuggling and unauthorized release of goods bypass customs controls entirely, introducing not only economic but also security risks, as illicit goods, including prohibited substances or counterfeit products, may enter the market undetected (Singh et al., 2023). The Smuggling and unauthorized release of goods related type of commercial customs fraud are off-record transactions (see Fig. 1). Off-record transactions are challenging to trace and represent a significant barrier to accurate trade data collection and enforcement of trade laws, exacerbating the issue of under collection of customs duties (Cantens, 2015).

A particularly important issue is the intended use of goods, an issue of particular relevance in the context of today's geopolitical conflicts over dual-use goods. This type of commercial customs fraud is called end-use (see Fig. 1). End-use Fraud undermines tariff concessions granted based on the intended use of imported goods, requiring robust verification mechanisms to ensure compliance with trade agreements (Chalendard et al., 2020).

The origin of imported goods is particularly important. Due to agreements between different countries, customs tax advantages are often applied on the basis of the origin of the goods, so this is also a type of commercial customs fraud (see Fig. 1). Falsification of origin takes advantage of preferential trade agreements or aims to evade anti-dumping duties, complicating efforts to enforce fair trading practices and protect domestic industries (Ganbayev, 2023).

Last two types of commercial customs fraud (see Fig. 1) include false declaration of quality and quantity and falsification of trade license. False Declaration of quality and quantity directly affects customs revenue and, in cases involving substandard products, can pose significant risks to consumer safety (Chalendard, 2017). Falsification of trade license involves the use of forged or altered documents to conduct trade, challenging the enforcement of licensing requirements and standards (Shao, Zhao, & Chang, 2002).

These types of commercial customs fraud necessitate a multifaceted response from customs authorities, leveraging technology, data analysis, and international cooperation to effectively detect and deter fraudulent activities. Implementing advanced data analytics and machine learning techniques can enhance the ability to identify patterns indicative of fraud, improving the efficiency and effectiveness of customs enforcement (Ganbayev & Seyidzade, 2023). Furthermore, international collaboration and information sharing are crucial in combating these transnational issues, as fraud schemes often exploit vulnerabilities in global trade systems (Park, Kim, & Cha, 2022).

Following an analysis of the scientific literature, cases of customs evasion were identified in empirical studies. (see table 2). The typology presented in Fig. 1 was also assigned to the analysed cases in Table 2.

**Table 2.** Cases of customs duties evasion

**2 lentelė. Muitinės mokesčių vengimo atvejai**

Source <i>Šaltinis</i>	Cases of customs duties evasion <i>Muitinės mokesčių vengimo atvejai</i>	Typology of fraud <i>Sukčiavimo tipas</i>
Triepels et al. 2018	The empirical research focused on the detection of miscoding and smuggling in the international shipping industry. Cases of fraud included miscoding and smuggling of goods, and removing goods from cargo lists.	<ul style="list-style-type: none"> <li>• Misclassification of goods</li> <li>• Smuggling and unauthorized release of goods</li> </ul>
Kim et al., 2020	The research aimed to detect suspicious transactions, taking into account the increase in trade flows and the methods used by customs administrations. The proposed empirical research model was able to identify the manipulation of HS classification codes and the origin of goods fraud.	<ul style="list-style-type: none"> <li>• Valuation fraud</li> <li>• Misclassification of goods</li> <li>• Falsification of origin</li> </ul>
Gwardzińska & Chackiewicz, 2022	The empirical research identified customs smuggling of intellectual property rights (IPR) infringing goods. Several types of fraud were uncovered, including trademark counterfeiting, copyright infringement, patent infringement, and design right infringement.	<ul style="list-style-type: none"> <li>• Valuation fraud</li> <li>• Smuggling and unauthorized release of goods</li> </ul>

Analysis of the literature (see Table 2) showed that there exist various cases of customs duty evasion. In previous empirical research (Triepels et al. 2018; Kim et al., 2020; Gwardzińska & Chackiewicz, 2022) majority cases of customs duties evasion related to fraud of valuation, classification, origin, smuggling, and unauthorized release of goods. Researchers Triepels et al. (2018) and Kim et al. (2020) sought to develop a customs fraud detection model so that it could be applied in practice by customs administrations to reduce fraud.

Gwardzińska and Chackiewicz (2022) provide a comprehensive examination of the issue of IPR infringing goods being smuggled into the EU. Gwardzińska and Chackiewicz (2022) discussed that the EU has taken various measures to combat the smuggling of IPR infringing goods, including:

- Strengthening Customs Enforcement: Enhancing the capabilities of customs authorities to detect and seize counterfeit goods.
- International Cooperation: Working with exporting countries and international organizations to address the problem at its source.
- Public Awareness Campaigns: Educating consumers about the risks associated with counterfeit goods.

In order to carry out the present research from secondary data sources, various sources were analysed, and cases of customs tax evasion in EU were identified (see Table 3).

**Table 3.** Cases of customs duties evasion in EU

**3 lentelė. Muitinės mokesčiai vengimo atvejai ES**

Typology of fraud Sukčiavimo tipas	Cases of customs duties evasion Muitinės mokesčių vengimo atvejai	Source Šaltinis
Valuation fraud	The largest of OLAF's investigations concerned imports through the United Kingdom (UK) between 2013 and 2016. OLAF calculated that nearly €2 billion worth of customs duties were lost in those instances. The European Court of Justice found that the UK had failed to fulfil its obligations under EU law by failing to apply effective customs control measures in relation to imports of certain textiles and footwear from China, and by failing to provide OLAF with all of the information necessary to calculate the amount of customs duties lost.  In order to calculate the real worth of undervalued goods over the years, OLAF developed a complex and effective tool, in cooperation with the European Commission's Joint Research Centre (JRC) that has become widely used for risk management and intelligence purposes in several EU Member States.  The same tool also helped uncover similar fraud schemes targeting the customs services of other Member States. Overall, OLAF calculated so far losses for over €2.7 billion in connection with this fraud scheme.	European Anti-Fraud Office, 2022
Smuggling and unauthorized release of goods	In 2021, OLAF's operations led to seizures of 437 million illicit cigarettes, including 93 million cigarettes smuggled into the EU, 253 million cigarettes impounded outside its borders and 91 million cigarettes produced illegally at sites across the EU. Information uncovered by OLAF helped lead to the confiscation of 372 tonnes of raw tobacco that was destined for the illicit production of cigarettes. Also in 2021, OLAF continued to be active on waterpipe tobacco smuggling and was able to identify suspicious consignments of over 60 tonnes of waterpipe tobacco. These seizures saved EU Member States an estimated €90 million in lost revenue.	European Anti-Fraud Office, 2024
Falsification of origin	In the case of Bangladesh, bicycles are exempt from EU duties if they meet strict EU criteria on the origin of components. OLAF found that one of the Bangladeshi manufacturers was using components from China. As a result of the audit, 416 843 bicycles will have to be relabelled as being of Chinese origin and the EU budget has lost €12.7 million as a result of the fraud.	European Anti-Fraud Office, 2024

The typology of fraud outlined in Table 3 underscores the significant financial impact of customs duties evasion, smuggling, and unauthorized release of goods, as well as the falsification of origin, on the revenue of the EU. These fraudulent activities have led to substantial losses, amounting to billions of euros. For instance, valuation fraud alone resulted in nearly €2 billion in lost customs duties through improper imports in the UK between 2013 and 2016, with OLAF's investigations revealing a total loss of over €2.7 billion across various fraud schemes. Similarly, smuggling and unauthorized release of goods, notably illicit cigarettes and waterpipe tobacco, prevented the collection of approximately €90 million in revenue in 2021. Falsification of origin, as seen in the case of bicycles from Bangladesh improperly labelled to avoid EU duties, further exemplifies how fraudulent practices can directly harm the EU's financial interests, with losses amounting to €12.7 million.

These findings highlight the urgency for the EU to enhance its counter-fraud measures. Building on Gwardzińska and Chackiewicz's (2022) recommendations, it is crucial to bolster the fight against fraud through enhanced data sharing, the adoption of advanced technologies, stronger legal frameworks, and increased consumer education. These strategies are vital for protecting the EU's financial interests and ensuring the integrity of its customs and trade systems. The collaboration between OLAF and various EU bodies, including the European Commission's Joint Research Centre (JRC), in developing tools for risk management and intelligence underscores the potential of technological and cooperative approaches to mitigating these challenges.

Based on the conclusions of Gwardzińska and Chackiewicz (2022) regarding the recommendations for strengthening the fight against the smuggling of goods infringing intellectual property rights, it can be said that the recommendations are also suitable for combating other cases of customs evasion. These recommendations include (Gwardzińska & Chackiewicz, 2022):

- Enhanced Data Sharing: Improved sharing of information between EU Member States and with international partners to track and intercept counterfeit goods more effectively.

- Adoption of Advanced Technologies: Utilizing blockchain, artificial intelligence (AI), and other technologies to authenticate products and track supply chains.
- Stronger Legal Frameworks: Harmonizing laws and penalties across the EU to deter smugglers and counterfeiters.
- Consumer Education: Continuing to educate consumers on the importance of buying authentic products and the dangers of counterfeit goods.

To sum up the present research results, customs duties evasion emerges as a multifaceted issue that significantly impacts the EU financial stability and market integrity. The importance of customs duties to the EU's economy cannot be overstated, as they are essential for the free movement of goods, the functioning of the single market, economic growth, and international trade. The research has highlighted a range of fraudulent practices, including valuation fraud, misclassification, smuggling, and the falsification of origin, which collectively lead to considerable revenue losses for the EU.

The analysis of secondary data sources, including previous empirical studies and investigations by EU organizations, has revealed the pervasive nature of customs duties evasion and the variety of methods employed by fraudsters. These methods not only result in financial losses but also undermine the effectiveness of customs controls and the security of international trade.

The findings underscore the necessity for a comprehensive approach to combat customs fraud, emphasizing the role of advanced technology, international cooperation, and stronger legal frameworks. The adoption of innovative technologies like blockchain and AI can enhance the detection and prevention of fraud, while international collaboration is crucial for addressing the transnational nature of these crimes. Furthermore, harmonizing legal penalties across the EU and enhancing consumer education on the risks associated with counterfeit goods are essential steps in strengthening the EU's defences against customs fraud.

In conclusion, addressing customs duties evasion is imperative for safeguarding the EU's financial interests and ensuring the integrity of its trade system. Through enhanced data sharing, technological innovation, legal reforms, and public awareness initiatives, the EU can bolster its efforts to combat this pervasive issue, protecting its economy and maintaining fair trade practices. This comprehensive response is not only vital for mitigating current losses but also for securing the future of the EU's customs and trade ecosystem.

## Conclusion

1. The present research underscores customs duties as pivotal for the EU's budget, highlighting their significance in funding essential services and contributing to economic stability. Given that there are various ways of evading customs duties, the EU budget loses out and EU citizens aren't fully protected from illegal goods.

2. It delineates a typology of commercial customs fraud, including valuation fraud, misclassification, smuggling, and falsification of origin, showcasing the diversity of evasion tactics. Each type of commercial customs fraud is specified in smaller sub-types of how companies avoid paying the required customs duties. Taking into account new business models and changes in customs legislation, it is necessary to renew the study of the typology of commercial customs fraud in future studies and to assess whether there are new types of fraud.

3. Through case analysis, the present research identifies the most common types of customs duty evasion in the EU and highlights the need for robust countermeasures to protect the EU's financial interests and ensure market fairness. The smuggling of IPR-infringing goods into the EU was identified as a significant challenge with complex economic, public health and security implications. While progress has been made, continued efforts, technological advance and international cooperation are essential to effectively combat this problem.

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