

THE COSTS OF CUSTOMS COMPLIANCE IN CROATIA IN 2001¹

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Abstract

The purpose of the paper is to show the size and the basic characteristics of the costs of complying with customs liabilities of the legal entities and small business in the Republic of Croatia in 2001. These are all the costs, excluding the amount of customs duty paid, that have to be borne by the customs payer while adhering to and acting in accordance with the customs laws. The investigation was carried out by the face-to-face interview method, in the period from June to October 2002. Firstly it was determined that the costs of customs compliance (CCC) were regressive. Secondly it was shown that CCC were large in comparison with the total customs revenue, the size of GDP in 2001 and the total imports of the legal entities and small business. The paper also points out a number of other interesting results and the many conceptual and methodological problems of this research.

Key words: costs of customs compliance, Croatia, regressiveness.

1. INTRODUCTION

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Additional funds were also given by the Institute of Public Finance, Zagreb, the institution that led the project: "Costs of taxation in Croatia: administrative costs and the costs of tax compliance", of which this paper is a part. The questionnaires were carried out and in line with instructions statistically processed in PULS d.o.o., Agency for Market, Media and Public Opinion Research – below, PULS. The PULS then is responsible for the processing of the data; the author is responsible for everything else.

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The purpose of the paper is to indicate the size and basic characteristics of customs compliance costs (CCC) for legal entities and small businesses (below: customs payers or importers) in the Republic of Croatia (RC) for 2001. The CCC comprise all the costs, excluding the amount of the customs duty paid and any distortion costs arising from it, that are borne by those obliged to pay customs duty while they adhere to and act according to the customs laws. Put most simply, they consist of the time and money spent by the customs payer and the psychological costs related to customs compliance.

In the second part of this paper the concept of customs compliance will be defined in greater detail. The third part of the work expounds knowledge obtained to date about the CCC, and the reasons for which they should be investigated. The fourth part of the work discusses the objective of the paper, listing the basic hypotheses of the study.

Part five considers the methodological and conceptual problems of the elaboration of the questionnaire according to which the interviewing was done, and after that we are talking about the character of the sample of importers whom we interviewed.

Part six explains the customs compliance costs investigative method – the face to face interview. The problems faced by the administrators of the questionnaire will be listed too.

The results of the research for small businesses and legal entities are shown in part seven. Finally come recommendations for a reduction of the CCC in the RC, future investigations and a conclusion.

2. DEFINITION OF THE COSTS OF CUSTOMS COMPLIANCE

There are various classifications of the costs that incurred in a society as a consequence of the introduction and functioning of taxes (Haughton, 1998; Sandford, 2000). Most authors agree

that total costs are divided into costs to the administration (administrative costs) and costs to taxpayer (compliance costs) (Sandford, Godwin and Hardwick, 1989).

Administrative costs are all public sector costs incurred during the administration of the existing tax laws. These, then, may be defined as the costs of passing and implementing the tax laws, including any proposals for changes in them (Sandford, Godwin and Hardwick, 1989). They contain expenditures of the government institutions that deal with the administration of taxes (wages costs, costs of material and energy used and so on).²

Compliance costs comprise those costs that the taxpayers incur in order to meet the provisions of the tax laws and the requests of the tax administration. The costs of the taxpayer are all those costs that the taxpayer has to bear on top of the actual taxes (Kesner-Škreb, (1999), Sandford, Godwin and Hardwick (1989), Allers (1994), Sandford, (2000)).

Since customs is one of the oldest forms of taxation, and is paid on all goods that are imported; in this paper, the CCC are thus studied.³ There is very little literature concerning the CCC, hence for a more detailed definition of them works concerning tax compliance, particularly VAT, (mainly Sandford, Godwin and Hardwick (1989), Klun (2002), Allers (1994)) have been used.

We define that CCC include the costs of acquiring the necessary expertise to be able to comply with the customs regulations; the costs that are incurred when customs dues are calculated and in filling out various customs forms and Single Administrative Document (SAD), the costs of paying professional advisers (authorised agents/forwarders), and also costs related to postage, telephones and journeys related to customs compliance. There are also costs related to the collection and filing of documents, and the payment of security or

² For more about the administrative costs of taxation in transitional countries and the RC see Ott and Bajo, 2000. Apart from this, as a part of this project called “Costs of taxation in Croatia: the administrative costs and compliance costs of taxation”, Bratic and Pitarevic (2003) deal with the administrative costs of taxation and customs in the RC, 1999-2001.

³ Customs duty, in the RC, is paid in line with the Customs Tariff Law, the Customs Law and a number of other provisions, laws, regulations, decisions and rulings (Kesner-Skreb, Kulis, 2001).

guarantees related to customs duties. Since the lack of clearness of the customs laws also causes importers additional costs, the costs thus arising are also considered CCC. CCC also include the costs of certain associations and bodies if and when they lobby for certain changes in the customs law. In addition, changes in the customs law also have a considerable impact on costs incurred, relating to the adjustments that have to be made to them.

It should be stated that in 2000 a new Customs Law came into force. The basic features of this law as against its predecessors are: liberalisation of the customs procedure, accelerated customs formalities, the creation of the preconditions for the reduction of import customs duties and the reduction of the number of exemptions and privileges. The new law also brought in the SAD the form and contents of which are adapted to the same documents that are used in EU countries. In addition, on 30 November 2000 Croatia became a full member of the WTO. Entry into the WTO led to the reduction of high protective tariffs as well as non-tariff barriers to trade (Galinec and Jurlin, 2002).

It was important to mention the coming into force of the new Customs Law and the entry into the WTO, for these changes, however much they should in the long-run lead to a reduction in the CCC, most likely in 2001 resulted in their increase (because of the importers' need to adjust to the new regulations). Hence it is possible that in 2001 the CCC were somewhat greater than in other years when there were no such major changes in the customs system.

3. WHAT IS KNOWN ABOUT THE COSTS OF CUSTOMS COMPLIANCE AND WHY WE HAVE INVESTIGATED THEM?

In the literature there are few papers devoted to the CCC. Even direct contact with several of the most highly developed tax administrations (the USA, Canada, Australia, the UK and so on) was not of very great use in finding out a little more about these costs.

What is, nevertheless, known about these costs? In the mid-1980s, the European Commission carried out research using a sample of 500 companies in six member countries, examining the total costs of all tax and customs compliance and the costs of statistical reporting connected to trade among the EU countries.

In the Cecchini Report, as it was called, it was estimated that the total costs that are borne by legal entities (because of taxes, customs and statistical reporting relating to the size of the trade among the countries of the EU) came in 1986 to about 2% of the value of total trade among EU countries. But this research has not been of much use to us because the results of it were much criticised (see Verwaal and Cnossen, 2002). An additional reason is that this research relates to the CCC, as well as certain other tax liabilities incurred at borders, which is much broader than the CCC, the subject of this study.

Apart from this, the World Customs Organisation (WCO, 2003) reports that some studies estimate that formalities at borders accompanying custom compliance result in costs of 7-10% of the value of a given dutiable consignment. However, this research too was of little use to us, because it is impossible to conclude clearly from it what these costs are, which border formalities are referred to, how the research was carried out, and so on.

However, irrespective of all these restrictions, from both the investigations it is clear that the CCC do exist and that they are considerable. What is more (Verwaal and Donkers, 2001) state that the CCC (even if they are very small) do lead to a reduction in international trade. Hence their negative effect on the size of international trade is one of the reasons for them to be investigated.

Apart from that, writers such as Haughton (1998) and Sandford (2000) state that many investigations in tax compliance costs have shown that the costs to the taxpayer are several times greater than costs of the tax administration for the collection of given taxes. Hence, apart from it being important for us to investigate how much the Customs Administration spent in a given year⁴ it is also important to determine what the CCC (of the importer) were.

The third reason for the investigation of the CCC is the argument (see Sandford, 2000) that the relation between the CCC and the administrative costs of taxation is very complex and multi-directional. For there are many ways according to which taxes can be collected, and different ways result in various magnitudes of administrative costs and CCC. The same goes for customs duties. Because of the close links between administrative costs and the CCC, and in order to obtain a picture of the total costs that incurred in the RC as a result of customs, it is necessary, alongside the administrative costs, to consider the CCC as well.

4. THE OBJECTIVE OF THE RESEARCH

As said the objective of the investigation is to determine the magnitude and basic characteristics of the CCC in the RC in 2001 for small businesses and legal entities.

The basic hypothesis of this work is that the CCC in the RC are regressive. Meaning that for although with the rise in the value of imports the total CCC always rise, a 1% rise in the value of imports brings about a growth of the total CCC of less than 1%. For this reason as the value of imports rises, CCC per unit⁵ falls. Thus regressiveness then means that the CCC fall disproportionately more heavily on smaller importers. The reason for this is a certain fixed component in the CCC, which stays the same irrespective of the value of the import.

⁴ Bratić and Pitarević (2003) estimate that tOTAL administrative costs of the Customs Administration in 2001 came to 290 million HRK.

⁵ We use different units by which we measure the value of imports, e.g, the value of imports in HRK or the number of SADs submitted.

Then, the second hypothesis of the work is that the total CCC are absolutely and relatively large (in relation to GDP, to total customs revenue for 2001, and the value of importers' import).

Apart from the basic hypotheses, the following are also tested:

- that small firms rely quite a lot on authorised agents (agents),
- that the CCC have gone down in the last five years.

We also wanted to reveal any areas in which it might be possible to reduce the CCC. For this reason there was an attempt to evaluate the benefits from submitting the SAD on-line, and the benefit from the use of simplified customs procedures. Apart from that, an attempt was made to evaluate the psychological component of the CCC, the degree of satisfaction of importers with the work of the Customs Administration and other things.

5. METHODOLOGICAL EXPLANATIONS

The investigation was carried out with the use of face-to-face interviews, in the period from June to October 2002. Seventeen small businesses and 50 legal entities, importers, were interviewed (Annex 1).

In the research, we came upon a series of conceptual and methodological problems. The results of the investigation, therefore, need to be taken with a certain degree of circumspection. Especially because it is one of the first attempts at calculating the CCC not only in the RC, but in the world at large. Hence the difficulties that we encountered were manifold.

5.1. Basic problems

It was difficult to identify CCC. The problem inheres in the lack of any literature about the CCC. It was impossible to rely on other research, or use the findings from the literature or other researches. Hence because of the many specific features related to the customs system, as well as to the problems of the CCC, in writing the questionnaire used to carry out the interview, several employees of the CA and agents helped us. The employee of the PULS d.o.o., Agency for Market, Media and Public Opinion Research (below PULS) was supposed to enable the questions to be clear and intelligible to the interviewees. The wish was to make a questionnaire that would have as few as possible open-ended questions. However, since this is one of the first investigations in the area of the CCC and it was wished to test out many different hypotheses, the questionnaire turned out actually to be quite long and complicated. In future investigations, this should certainly be avoided.

The most important problems in drawing up the questionnaire were: first, whom to interview? Who would best be able to estimate what the costs were? Most of the legal entities and small businesses used agents (customs clearing agents)⁶ for customs compliance. Legal entities and small businesses can do the importing themselves, but because of their lack of knowledge of procedures, the hiring of agents is a regular procedure.

Furthermore from agents we obtained the information that many agents send invoices to the importers for whom they carry out customs matters in which there is no specification of how much money is paid for the CCC, and how much for any other costs, such as the transportation of goods, loading and unloading and so on. Since costs related to jobs such as transport, loading, unloading and so on are not reckoned the CCC, we decided, with a series of control questions, to ask agents about the magnitude of the CCC, and about the problems that they meet in customs compliance.

⁶ Agents or forwarders are companies or sole traders that carry out customs procedures for third parties.

But the question arose about what to do if an importer in 2001 used several agents. Were we to interview one or several or all his agents? For the sake of simplicity, we decided to check the CCC for only one agent, the one through which the importer imported the most goods, in terms of dutiable value, in 2001.

One has to mention another reason for which it was difficult to estimate what the CCC were. Although it is stated everywhere that the CCC relate only to those costs that incurred to provide compliance with the customs laws and the requirements of the Customs Administration, in practice importers, during import, pay excise and VAT at the same time. For this reason it is possible that the CCC have been exaggerated in the investigation, that is, that the research shows, alongside the CCC, some of the costs that relate to VAT and excise compliance on importation.

As in all other investigations, the monetary evaluation of time spent on customs compliance represented an additional problem. In foreign research, various values have been used for the monetary evaluation of time spent. Klun (2002) gives a very good survey of the values so far used in the costing of the time of employees spent in VAT compliance⁷. Because there is no single right solution, and that every measurement has its drawback, whenever possible, the investigation was conducted like that of Allers (1994), with the aid of natural indicators (the cost of an hour stated by the interviewees themselves). If the interviewees have stated the net wage rate, that rate was recalculated into gross wage rate⁸ with the employer's social security contributions added in order to get to the full labor time costs.

The next problem is that in the past investigations have shown that it is not enough to ask the interviewees only about the amounts spent on costs of compliance with a given tax,

⁷We mention VAT because customs duties are in their characteristics most similar to VAT (among other things because of the basis on which they are paid).

⁸ Using the standardized formula to convert net wages into gross wages, taking into account the town where interview was done (because of the local surtax rate). Tax allowance for only one dependent person (child) was assumed.

because people do not know what is implied by the concept of compliance costs. Even Sandford, Godwin and Hardwick (1989:10) remark that the concept of “costs of tax compliance” is fairly fuzzy. Hence the CCC in the questionnaire are shown according to items (according to the customs activities they are linked with).⁹ For the same reason, in the accompanying letter that was given to the interviewees together with the questionnaire, there was yet another definition of what exactly CCC are.

5.2. Sample characteristics

Like research into the costs of income tax compliance in the UK that used the data base of the tax administration for the selection of a sample (Sandford et al., 1989), the database of the Customs Administration for 2001 was used for the selection of the sample of importers in the RC. In that year there were the following importers: 18,422 legal, 50,567 natural entities and 6,497 natural entities registered for agricultural or small businesses.

Out of the desire for as great simplicity as possible in the research, natural persons who were not small businesses were not interviewed. An additional argument was that a natural person should not have great CCC (except for time spent), particularly if the value of the dutiable goods is less than 5,000 HRK.¹⁰

The stratification of legal entities and small business was made in such a way that by random selection from the database of all importers in the RC 75 legal entities and 25 small

⁹ These are the costs of all activities related to:

1. the SAD, the payment of customs duties and administrative charges,
2. the necessary documents that are appended to the SAD (veterinary, sanitary, etc.),
3. the collection of information, keeping up with the customs law and trade literature, attending seminars,
4. the cost of telephone and personal consultations with officials of the Customs Administration and advisers,
5. the warehousing of goods for customs purposes,
7. all matters related to the customs guarantee,
8. court costs and fines,
9. the costs of authorised customs clearing or forwarding agents (agents),
10. costs related to postage, copying, faxing and so on.

¹⁰ For more on the financial costs of natural persons on the customs border, see Bursic et al, 2002.

businesses were chosen. They were chosen depending on the value of their imports and the region where their headquarter was (Zagreb, Varazdin, Split and Velika Ves). The reason for the focus on these cities is that these are some of the towns in the areas of their counties that in 2000 had the greatest imports¹¹ and in which the PULS was able to carry out interviews (Annex 1.).

6. THE METHOD - INTERVIEW

Sandford, Godwin and Hardwick (1898) say that all the methods that are used for social investigation can be used in investigations of the costs of tax compliance. However, in practice, most of the costs of tax compliance have been investigated by postal questionnaires or by detailed in-depth time and motion studies. These two methods were most often backed up with interviews and telephone interviews.

This investigation used the method of face-to-face interview; the interview period lasted from June to October 2002. Although it is well known that interviews are more expensive than postal questionnaires, the PULS suggested that interviews were very qualitative and reliable and that they would enable a faster completion of the project, and better control of samples and the polling process than postal questionnaires, and that the costs would not be so much greater than research carried out by postal questionnaires.

After drawing up the questionnaire, we consulted with several agents and a pilot project was carried out. After the implementation of the pilot project came the actual interviewing.

¹¹ Detailed data about regional import in terms of cities were not available. We only have the size of imports for 2001 at the county level. Thus during 2001 most goods were imported by firms with HQs in Zagreb (54.3% of all imports). The imports of other counties are diverse and fragmentary. The largest individual share in imports went to Istria County (6% of all imports), then Primorsko-Goranska (5.7%), Zagreb County (5%), Split (4.6%) and Varazdin (3.9%) (Galinec 2001).

6.1. Problems that surfaced during the interviews

Some of the problems that we were faced with during the interviewing period had been remarked on by Sandford, Godwin and Hardwick (1989). Pollsters are people who are not researchers and hence do not know the area under investigation very well. They do not have the time or the knowledge to be able to deal with interesting issues and matters that might come to light during the investigation. Apart from that, although the pollsters have to keep to a set of instructions and questions defined in advance, it can happen that they do not interpret some of the questions well, or that they define them in an inappropriate way, hence the interviews carried out by the pollsters can be less useful than those administered by the actual investigators. The recommendation is then that as many interviews as possible (if this is the research method) should be carried out by the investigators themselves, for in this way more and more interesting information will be acquired.

The pollsters themselves informed us about the problems that were encountered during the research. Because of the demanding nature of the interviews, the project started with experienced pollsters, but they lost heart when they came upon the most various problems. For a completed whole questionnaire, a lot of effort was required. The biggest problem was that the data base about importers that the pollsters had at their disposal was not kept up to date.

The pollsters on the whole met with respondents who did not have a lot of patience with giving all the data necessary, particularly concerned with questions that required checking up and finding data in documentation and reports. For example, it was not easy to determine which part of the overhead costs related to customs matters. Furthermore, informants were not keen on questions connected with finances and wages. Many of them did

not wish to reply, alleging “business confidentiality” remarking that “this would be an invasion of privacy”.

Apart from that, like Haughton’s investigation (1998), in this research too questions related to an estimate of the time spent on individual jobs in the last twelve months made very great demands on the subjects. It was hard to estimate how much time all the employees had spent just on customs compliance.

For this reason it was extremely difficult to find a happy medium between the investigative desire for as much as possible accurate data, and the unwillingness of the interviewees to put in the great amount of effort that was required from them in the filling out of this kind of questionnaire, and if one wishes to carry out an investigation of a large population, it would be best to limit oneself to simpler and less demanding questions that the informants will find it easier to answer.

An additional problem is that for the questions asked, depending on the situation, it was necessary to contact three persons (the owner, the employee who deals with customs matters, and the agents). Thus it quite frequently occurred that part of the questionnaire would be successfully completed, and that to fill in the second part of the questionnaire it was necessary to wait for people from the customs clearing agent, who did not want to take part, or had no time. Hence the recommendation, if possible, is to reduce the number of persons it is necessary to interview to fill out a questionnaire.

Interviewing also stretched on into the time of the annual vacations, which was an additional obstacle. At any rate, in the end the interviewing was concluded with a great deal of trouble in searching out reliable respondents who have the time and patience for this kind of research.

All these problems, and the fact that the interviews were nevertheless extremely expensive and had thus to be done on a much smaller scale resulted in a smaller number of

persons being interviewed than had been planned. Of the planned 25, 17 small businesses were interviewed; of the planned 75, only 50 legal entities made responses (Annex 1). Below follow the most basic results of the research for small businesses, and then more detailed results for the investigations relating to legal entities.

7. THE RESULTS OF THE RESEARCH

7.1. The results of the investigation for small businesses (importers)

Most of the economists who have investigated the costs of tax compliance abroad have come to the conclusion that the costs of tax compliance are regressive (Sandford, Godwin, and Hardwick 1989; Allers, 1994; Klun 2002; Sandford 2000).

Because of the problems with the interviewing, and the low number of persons interviewed, our small business sample turned out not to be representative, and there was no sense in testing anything but the most basic hypothesis in connection with it, that of regressiveness.¹²

It is logical that with the rise in the imports of a small business, its total CCC should also rise. For example, an importer will probably import more consignments from abroad, and will have to submit more SADs, collect and fill out more other kinds of permits and so on. But the issue is how these CCC rise? Do they rise regressively? The CCC would rise regressively as compared with imports if for a 1% increase in the value of imports there were a rise in the CCC less than 1%.

¹² Allers (1994) cites a number of investigations of tax compliance costs that also obtained unrepresentative samples. Still, all those with unrepresentative samples did attempt to show that the costs of tax compliance were regressive.

Table 1 shows that for the small businesses interviewed, there were indications of regressiveness. Thus further conclusion is that the costs of CCC constitute a disproportionately greater burden for smaller small businesses.

Table 1. Regressiveness of CCC for small businesses

Value of the small business's imports in 2001 (in thousands of HRK)	N (%)	Mean annual CCC		
		as percentage of imports	per SAD* (in thousand HRK)	per unit of duty paid
Up to 200	24	15,9	7,9	0,16
200 to 300	35	9,2	3,2	0,09
More than 300	41	5,4	2,8	0,05

* *The SAD is the basic customs document that is submitted when customs clearing is sought for goods¹³*

According to various bases (which we take as indicators of the value of imports) larger small businesses have relatively lower CCC. Thus the mean annual cost of customs compliance in 2001 for small businesses who imported up to 200,000 HRK came to 16%, while for small businesses who had imports over 300,000 HRK, they were about 5% of the value of their imports.

Table 1 shows that more SADs an importer submits, the smaller are his CCC per SAD. The mean CCC in 2001 for small businesses who imported up to 200,000 HRK came to about 8,000 HRK per SAD. It can thus be said that, on average, one import procedure for small business who imported up to 200,000 HRK costs this much. For small businesses

¹³ There are 8 customs procedures (releasing goods for sale, export procedure, transit procedure, customs warehousing procedure, internal production procedure, processing under customs control procedure, temporary import procedure and foreign production procedure). For all these customs procedures, a SAD is submitted. But this investigation is focused on imports (releasing goods for sale), and so when the paper mentions "declaration - SAD" only the SAD that is submitted during import is implied. It is usual for the importer to submit one SAD each time he imports something.

whose imports are greater than 300,000 HRK, the average CCC were almost three times as little, or about 3,000 HRK per SAD.

Furthermore the more a small business's imports grow, the lower the CCC per unit of duty paid. The average CCC in 2001 for small businesses who imported up to 200,000 HRK came to 16 lipa¹⁴ per each HRK of duty paid, but for small businesses whose imports was greater than 300,000 it was only 5 lipa for each HRK of duty paid.¹⁵

Although it can be seen that there are indications of regressiveness, the calculations have shown that there are no statistically significant correlations between the CCC and the above mentioned variables. This is not surprising since it is a matter of a truly little sample. Hence the regressiveness shown in the preceding table can be presented only as an indicator of some possible confirmation of regressiveness in the CCC for small businesses, but with reservations, for nothing can be stated precisely without further research.

7.2. The results of the investigation with respect to legal entities (importers)

The results from the legal entities interviewed were more useful. This is probably because an absolutely greater number of legal entities were interviewed than were small businesses. Thus after weighting a representative sample from the aspect of the quantities of imports for legal entities was obtained.¹⁶ However, the sample for legal entities is not regionally representative. Thus because of lack of regional representativeness and because of the fact that the sample is very small, everything obtained by way of result of the analysis of our sample of legal entities is a depiction of the situation in the legal entities that import through customs, and actually just an indication of what the situation might be like in the population of all the legal entities-

¹⁴ 1 HRK = 100 lipa. 1 USD = 6,5 HRK (2. June 2003).

¹⁵ This regressiveness could be partially explained by part of the costs of customs compliance is of a fixed nature (for example, customs and administration charges, costs of professional literature), and this part does not change irrespective of how much the importer imports.

¹⁶ The sample obtained is weighted in accordance with population parameters.

importers in the RC. Or we can say that since the research of this kind have never been done in RC, the results from this research can be used as rough indicators of possible real trends in the population.

The comprehensiveness of the sample of legal entities as compared with the total number of legal entities that are importers (the universe) is 0.271%.¹⁷ Comparing the comprehensiveness of our sample with the comprehensiveness of the samples of some foreign investigations of the costs of tax compliance, we should notice that our investigation covered a greater part of the universe than almost any other investigation.¹⁸

7.2.1 The rise in the overall CCC with a rise in the imports of a legal entity

The research confirmed the most logical expectation that as the imports of a legal entity rise, on average, the total CCC also rise.

Table 2. Overall average CCC according to the value of the imports of a legal entity in 2001

Value of the imports of a legal entity in 2001 (in 000 HRK)	N (%)	Total average CCC* (in 000 HRK)
Up to 100	37	15
100 to 500	26	20
500 to 1 000	10	24
1 000 to 5 000	18	77
Over 5 000	9	250

**Average costs for legal entities in this bracket*

¹⁷ The number of legal entities questions was 50, and the total number of legal entities-importers in 2001 was 18.422.

¹⁸ For example, for the comprehensiveness of a sample with respect to total population for VAT and income tax, see Klun (2002).

A legal entity that had imports up to 100,000 HRK spent about 15,000 HRK on average in 2001 for customs compliance, while a legal person with imports over 5 million HRK spent about 250,000 HRK.

So huge CCC for legal entities that had in 2001 imports of over 5 million HRK can partially be explained by the fact that two thirds of them paid the services of a agent on an ad valorem basis (or in pro mille of the value of the imports) (Appendix 2). Unluckily, the prices of agents' services are not statutorily regulated in the RC, and importers themselves (particularly those who pay agents on an ad valorem basis and who import quite a lot) should seriously think about changing the manner of paying their agents.

The calculation of a series of correlations between the CCC and some of the more important variables directly or indirectly connected with legal entities' imports confirmed that on the whole as a legal entity's imports increased the total CCC also rose. A number of statistically significant, strong and positive links between the CCC and the series of variables were established.

Table 3. Coefficient of correlation between amount of CCC in 2001 and some variables of legal entities connected with imports

	R*
Dutiable value of imports	0,597
Number of declarations	0,581
Number of employees	0,593
Totally calculated duty	0,788

R- coefficient of correlation; Accepted at a degree of significance = 0,01*

But we wished also to determine the degree of strength of these connections (R). Thus, in our results, the weakest positive link is established between the dutiable value of the imports and total CCC of the legal entity, and the most powerful connection is that between the size of the calculated duty for a legal entity and the total amount of the CCC.

7.2.2. Regressiveness

The regressiveness of the CCC was checked in comparison with size of imports, number of SADs and amount of duty paid.¹⁹

Table 4. The mean CCC according to value of imports of legal entities

Value of imports of a legal entity in 2001 (in 000 HRK)	N (%)	Mean CCC *			
		per employee (in 000 HRK)	As % of imports	per SAD (in 000 HRK)	per HRK of customs paid
Up to 100	37	4,3	30,5	6,8	0,8
100 to 500	26	3,5	9,9	2,6	0,3
500 to 1 000	10	3,0	4,0	1,0	0,5
1 000 to 5 000	18	2,6	3,2	2,2	0,2
More than 5 000	9	2,3	0,6	0,7	0,1

* arithmetical mean of the import bracket

It was established then that the CCC are regressive and burden smaller legal entities to a disproportionately higher amount. Thus for legal persons with imports of below 100,000 HRK a year the average annual CCC per employee came to about 4,300 HRK, and for those whose imports were more than 5 million HRK, they came to only 2,300 per employee.

For legal persons who imported goods worth less than 100,000 HRK the average annual CCC came to 30% of their imports, and for those who imported goods worth more than 5 million HRK a year they were almost fifty times smaller, that is, only 0.6% of their imports.

With a rise in the amount of the imports, the average costs per SAD also fell, and the average costs for one import procedure declined²⁰. For legal entities with imports of less than

¹⁹ Since the distributions are not normal, the variables that are expressed in money are transformed with the use of a natural logarithm (ln) which is a usual procedure when variables are at issue that are highly positively sloped (asymmetrically – spread out far to the right). After the transformation, the mean value is calculated, which is then transformed into a natural number.

100,000 HRK, the average costs per SAD came to about 7,000 HRK, and for those who imported goods worth more than 5 million HRK, these costs came to ten times as little, about 700 HRK per SAD.

At the end of the research it was shown that as the imports of the legal entities rose, so the CCC fell per unit of duty paid. Legal entities who imported goods to the value of less than 100,000 HRK paid 77 lipa for the CCC for every HRK of customs duty paid, while entities that imported goods worth more than 5 million HRK paid only 7 lipa.

Using the data from the sample we calculated a regression calculation and obtained the following evaluation parameter (t ratio in brackets)

$$\ln(\text{TRUVOZ}) = 9,38 - 0,57 * \ln(\text{UVOZ}), \quad \text{R-squared}=0,49$$

(7,29) (-6,75)

The variable TRUVOZ represents the CCC as a percentage of the imports of a legal entity, and the variable UVOZ is the amount of the imports of the legal entity. Figure 1 shows the original values of the CCC, obtained by face to face interview, and the estimated values that we calculated with the use of the regression equation.

We calculated the regression equations for the other two independent variables: the CCC per unit of customs duty paid (TRCAR) (Figure 1) and the CCC per customs declaration - SAD (TRDEKL) (Figure 3). The equations and the evaluation parameters are as follows:

$$\ln(\text{TRCAR}) = 3,07 - 0,31 * \ln(\text{UVOZ}), \quad \text{R-squared}=0,23$$

(2,44) (-3,78)

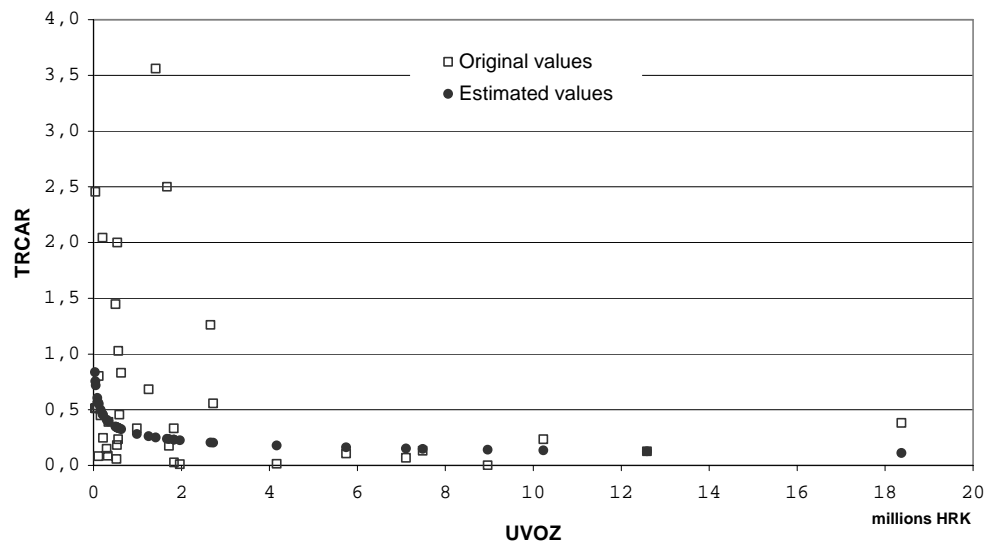
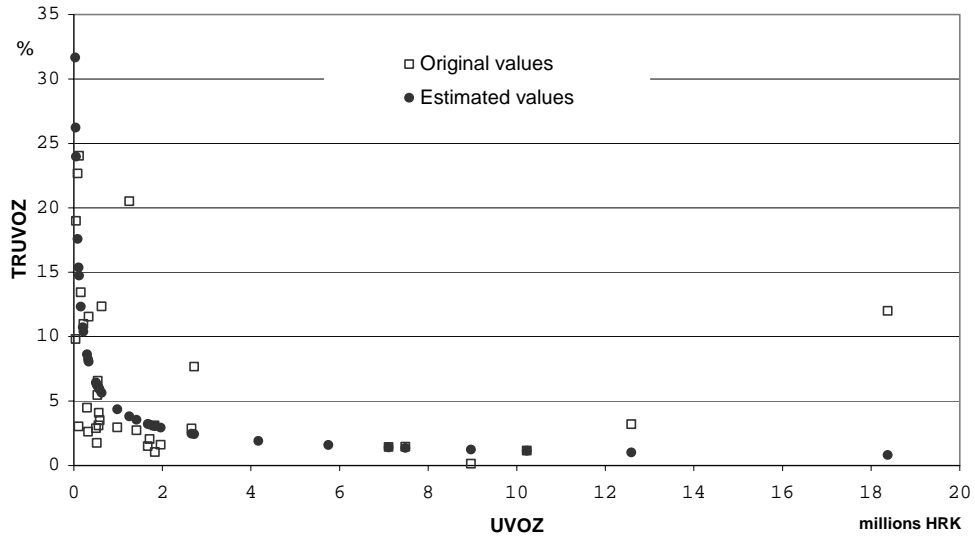
$$\ln(\text{TRDEKL}) = 11,24 - 0,27 * \ln(\text{UVOZ}), \quad \text{R-squared}=0,16$$

(8,39) (-3,0)

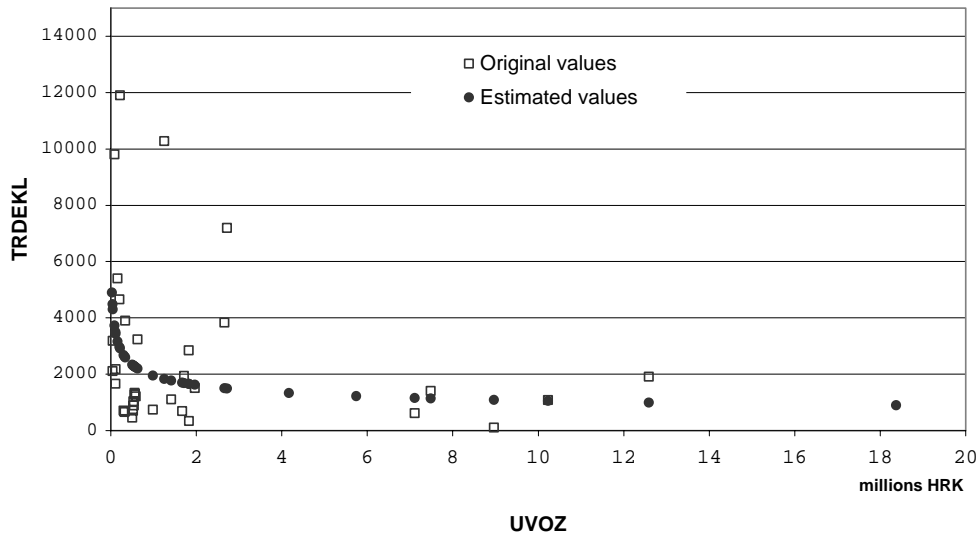
²⁰ It is usual for the importer to submit one SAD for each import. The number of SADs that are submitted on each import does not depend on the number of products or on the size of the import.

In all three cases we obtained negative coefficients that bear witness to the repressiveness; they can be seen in the following figures.²¹

Figure 1, 2 and 3



²¹ All additional data related to the regressions are found in Annex 3.



Thus it has been proved that the CCC of legal entities in the RC grow regressively, that is that the CCC are a relatively much greater burden on smaller legal entities, and thus the conclusion arises that it pays to import more. Showing that CCC for legal persons are regressive and large for some of them, we ask ourselves a logical question. Why are the CCC of legal entities so large?

7.2.3. Why are the costs of customs compliance so large?

Firstly we have already mentioned that two thirds of legal entities interviewed paid for the services of agents on an ad valorem basis (Annex 2). For this reason it would be useful to investigate in more detail the costs of agents and then consider whether there is any point in regulating and limiting the charges of agents by statute.

And then the question arises as to what is the point of the whole customs system, the customs laws, regulations, procedures and, ultimately, customs officials. Do they make customs compliance easier? Do they have an effect on the enlargement or diminution of the CCC? Hence in the interview the question was asked what persons who comply with customs consider the most complicated things, and what takes up the most time for them.

Table 5. Question: What in your opinion is the most complicated thing, and what takes up the most time in customs compliance?

	N	%	cum. %
Customs laws and regulations change too often	20	40	40
The decrees are inarticulate or illogical, and are implemented according to the whims of the interpreter	9	18	58
The customs procedure is untransparent and unpredictable	1	2	60
The customs procedure is too long	1	2	62
The length of the procedure for phytosanitary, veterinarian and market inspection	0	0	62
Problems connected with customs personnel	6	12	74
Miscellaneous	4	8	82
Don't know / No answer	9	18	100
Total	50	100	

The interviewees most often (40%) said that the most complicated aspect, or the thing that took up the most time in customs compliance was the frequent changing of customs laws and regulations, and the inarticulate and illogical decrees that were carried out according to the whims of those who were interpreting them (almost 20%). A relatively large number of interviewees (over 10%) said that problems connected with customs personnel took the most time in customs compliance.

The question about what the interviewees would propose to make the whole of the customs procedure easier or to reduce the time spent and the CCC resulted in similar answers, and a number of other useful responses. On the whole a simplification of customs regulations and procedures was mentioned, as well as less frequent changing of the laws. The interviewees thought that the agents/forwarders should be informed immediately and in detail about each, even the smallest, change in customs regulations.

For the simplification of the total customs procedure and the reduction of the time spent and the costs incurred in the calculation of the duty, the interviewees suggested a cutting of red tape, an acceleration of customs procedure, the computerisation of the CA and its procedures, the need for highly qualified personnel with specialist knowledge, both among customs officers and agents. They also say that as many customs offices as possible should have the inspection services (phyto, veterinary and market), then that there is a need for better communication among customs offices, so that customs regulations should not be arbitrarily and wilfully interpreted. Finally, they state the need for strict and rigorous customs inspection, and more stringent penalties for infringements.

It is obvious that the interviewees were well initiated into the problems of their own job, and that they can provide many high-quality solutions. For this reason these persons should be contacted and consulted more often. But still, since some of the interviewees stated the need for a much simpler and accelerated customs procedure, the question arises of whether they use the actual simplified customs procedures to a sufficient extent.

Article 88 of the Customs Law does prescribe simplified procedures. Two kinds of simplified procedure are discriminated; 1. a simplified declaration pursuant to an invoice²² and 2. the exemption of the declarer for the need to submit the goods – the so-called privileged consignee and consignor²³. In order to determine whether the legal entities

²² Simplified declaration according to invoice can be explained by the example of the importer of newspapers N d.d., which every day and at several border crossings imports papers (daily newspapers, weeklies, monthlies...). If for all these papers the importer had to submit a SAD at every crossing every day, time and money would be wasted. Apart from that, if these papers have to be at the kiosks at say, 7 in the morning, there is no time to carry out all these procedures at the border (submission of SADs and so on) if the papers are to arrive on time. For this reason N d.d. obtained permission to make use of the simplified declaration system on the basis of an invoice. Thus in practice, the truck comes to the customs house, the customs officers are submitted the invoice for the papers in the truck, and the customs officers at once let it pass. Once a week, N. d.d. submits to the Customs Administration a combined declaration including all these many invoices from the whole of the week and then, put simply, in this one declarations some 15 to 20 weekly consignments of papers are customs cleared.

²³ For example, pharmaceutical firm A. d.d. is approved as authorized ili privileged consignee. This means that goods from the border go directly to the warehouse of company A. d.d. There is thus no inspection of goods by the customs in the customs house or office (where goods are most often inspected and customs cleared). The user (A. d.d.) is obliged within a period of one hour of the arrival of the goods to inform the authorized customs house that the goods have arrived, and then the customs officer can in a period of half an hour from this advice come and inspect the goods, but does not have to. For example, goods arrive at the warehouse of A d.d. at 5, A

interviewed did in fact make use of the opportunities of the privileged consignee or consignor, the questionnaire asked them a particular question.

Table 6. Question: Do you make use of the opportunities of privileged consignee or consignor?

	N	%
Yes	8	16
No	39	78
Don't know / no answer	3	6
Total	50	100

It is interesting that most of the legal entities interviewed (almost 80%) did not make use of the opportunities of privileged consignee or consignor. A partial answer why this should be so can perhaps be seen from the following table.

Table 7. Does making use of the opportunities of privileged consignee or consignor make the customs clearing procedure easier?

	N	%
Yes	3	37
No	5	63
Total	8	100

Thus two thirds of those interviewed who did make use of the opportunities of the status of privileged consignee/consignor on the whole (63%) state that this did not make the customs procedure any easier for them. It is possible that the interviewees did not make use of this opportunity because it requires a lot of care and responsibility. For example so that the whole mechanism of simplification to be monitored, that is, the users have to keep bookkeeping records in which they must enter all data about the arrival and departure of goods, the tariff

d.d. has to inform the customs administration of the arrival at the latest by 6, and the customs administration can inspect the goods until 6.30. Until the administration officer arrives at 6.30 there is of course no removal of the customs marks from the truck (seals and so on) or unloading of goods. If the customs officers do not come to inspect the goods, they will inform the user, who can then take off the seals and unload the goods.

numbers, the weight and so on. And it is important to note that privileged consignees themselves authenticate SADs, with the assistance of a seal that they obtain from the Customs Administration.

Since the importers interviewed stated that for any simplification of the customs procedure and a reduction in the CCC, greater computerisation is necessary, the question was asked of whether they did at the moment use the existing possibilities for submitting SADs by electronic data interchange.

For according to Article 71 of the Croatian Customs Law, all goods that are put into the customs procedure must have SADs submitted for them. The declaration is submitted in writing, on-line (if there is the technology for it, and if it is approved by the CA), orally, and in some other procedures²⁴ by which the owner of the goods requests that the goods be entered into the customs procedure.

Table 8. Question: Do you make use of the possibility of submitting SAD via the Internet?

	N	%
Yes	17	35
No	31	65
Total	48	100

Only 35% of importers use on-line system for submitting their SADs. One of the reasons must be the generally inadequate use of the Internet in the RC. Thus CIA (2003) estimates that in Croatia in 2001 about 480.000 or about 10% of the population used the Internet. However, perhaps this is not the only reason for the relatively small number of importers that submit their SADs via the Internet, and so this should be explored further in the future, particularly since the responses to the following question show that those importers that did submit their SADs via electronic data exchange found it largely simplified the customs procedure.

²⁴ Declaration by other actions is explained in Articles 102-107 of the Decree for Implementation of the Customs Law, for example, the use of the green “nothing to declare” line.

Table 9. Question: Has submitting SADs via the Internet simplified the customs procedure?

	N	%
Yes	14	82
No	3	18
Total	17	100

It would seem that the submission of the SAD on-line in about 80% of cases, then, simplified the customs procedure. Hence the recommendation for all importers is that they should certainly use this possibility more. However, what can be seen from the following table is rather interesting.

Table 10. Question: Has the submission of the SAD on-line reduced the CCC?

	N	%
Yes	3	18
No	14	82
Total	17	100

Most of the informants stated that the submission of the declaration on-line simplified the procedure, but did not reduce the CCC. This answer seems a little contradictory, but it might be that the question was not understood properly. Thus this item should certainly be explored in greater detail, because finding an answer for this, and many of the other questions raised in the paper, would certainly help in reducing the CCC in the RC.

Apart from the questions asked to date, using the Likert test scale of five points there was an attempt to get more precise information about the satisfaction of the interviewees with the work of the officials of the CA (Allers, 1994).

Table 11. Question: On a scale of 1 to 5 please estimate your degree of satisfaction with the work of the officials of the Customs Administration.

	N	%	cum. %
1. Not satisfied	5	10	10
2. Partially satisfied	1	2	12
3. Satisfied	23	46	58
4. Very satisfied	8	16	74
5. Exceptionally satisfied	3	6	80
Don't know / No answer	10	20	100

It can be seen that a fifth of the interviewees (20%) do not know what to say or did not want to make any response to this question. Then 10% of respondents answered that they were not satisfied with the work of the Customs officers. Still, most of those interviewed (almost a half) replied with an average grade of 3, i.e., that they are satisfied with the work of the officials of the Customs Administration. As many as 16% of the respondents were very and 6% exceptionally satisfied with the work of the CA and its officials. We can conclude that the interviewees were on the whole satisfied with the work of the officials of the customs administration, because around 70% gave it a grade of from 3 to 5.

The most common grade, 3, average (satisfied with the work of the officials of the Customs Administration) is very likely a reflection of behaviour and work at the customs offices that are not always homogenous. Thus the interviewees said that some customs officers wanted to help, others did not. A certain number of those interviewed complained of the slow procedure, the long waiting, the pettiness and complications at some customs offices, the diversity of interpretation of regulations, the poor availability of information, the inaccessibility and arrogance of some officers.

On the other hand many say that they are mainly satisfied with the services provided by the customs personnel and that sometimes the personnel are not to be blamed for their procedures because they are not informed, not well enough trained for the jobs they do, not independent, and are part of a customs service that is in itself complicated. Thus it is up to the CA, on its own or with the help of the importers, to discover which employees and where

should and could improve their work, and in this manner attempt to simplify and speed up the customs procedure.

Investigations of the costs of tax compliance often mention the so-called psychological cost. Here we have defined this as the unease that arises when filling out and submitting SADs.

Table 12. Question: How do you feel after your SAD has been received in the CA?

	N	%
Disturbed, because of the great tension	2	4
Relieved, because I have finished a big job	14	28
Pleased, because I was able to do everything easily	4	8
Pleased, because I did it all	9	18
Indifferent	10	20
Something else	2	4
Don't know / No answer	9	18
Total	50	100

The large number of don't knows (18%) shows that the respondents either did not understand the question well, or did not know how to answer it. In general it can be seen that there is a certain psychological cost, because 4% of the interviewees replied that they felt agitated or disturbed because of the great tension, and the highest number of importers, almost 28%, replied that they felt relieved, because they had done a big job.

We now introduce the opinion of the interviewees about whether the CCC have increased or decreased in the last five years.

7.2.4. The opinion of the interviewees about changes in the amount of the CCC in the last five years.

Table 13. Question: Do you think that the CCC have increased or decreased in the last five years?

	N	%
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	N	%
Increased	17	34
Decreased	22	44
Don't know / No answer	11	22
Total	50	100

Although major changes happened in the customs system of the RC in 2000, in this question the opinion of the interviewees about changes in the amount of CCC in the last five years, because we were endeavouring to determine some long-term trend in the CCC.

About 30% of the interviewees replied that the CCC had increased in the past five years. They state that revenue stamps, fees and forms had increased, and that because of the complication of the law, it was more necessary to keep up with the literature and seminars, and that there was still too much paperwork connected with the business.

Nevertheless, the majority of the interviewees, about 40%, answered that they thought the CCC had diminished in the last five years. They adduced as reasons the fall in the prices of the services of agents, the abolition of tariffs for some goods and countries of origin, the many preferential trade agreements and hence the smaller stamp duties and so on.

Finally, in order to be able to estimate at least in outlines the total CCC for all small businesses and legal entities in the RC, since the sample for small businesses turned out to be unrepresentative and could not be used for the purpose, we decided to use the results of the investigation with respect to legal entities.

7.2.5. The total costs of customs compliance for small businesses and legal entities in 2001 in the RC

The total CCC for legal entities and small businesses in 2001, were estimated by assuming that the average costs for small businesses that are importers, depending on the magnitude of their imports, were approximately equivalent to the average costs for legal entities with the

same volume of imports. Thus we multiplied the arithmetical mean of the total CCC of legal entities for every size bracket of their import value (Table 2) by the number of small businesses and legal entities (importers) that have that value of imports.²⁵

Table 14. The total CCC of all legal entities and small businesses in the RC according to value of imports

Value of imports in 2001 (in 000 HRK)	Total CCC (in million HRK)
Up to 100	168
100 to 500	128
500 to 1 000	55
1 000 to 5000	271
Over 5 000	384
Total	1,006

The total CCC of all small businesses and legal entities in the RC in 2001 were estimated at 1,006 million HRK. How much are these as compared with GDP and total customs revenue in 2001?

Table 15. Estimated total CCC of small businesses and legal entities as percentage of GDP, the values of their imports and total customs revenue in 2001

CCC as % of	
GDP in 2001 (current prices)	0,6
total value of imports of small businesses and legal entities*	1.7
total customs revenue in 2001 **	26.3

*Source of values of imports of legal entities is the database of the CA,

** Internal datum of the Finance Ministry

Source: Finance Ministry, 2002a

²⁵ We obtained the number of legal entities and small business importers according to volume of imports from the CA database. We should mention that the number of small businesses includes natural persons who are importers that are registered for either farming or for some trade activity.

We can see that the total CCC of small businesses and legal entities in 2001 in the RC was estimated at 0.6% of GDP, 1.7% of the value of their imports, and about 26% of total customs revenue. From this estimate it follows that the total CCC for legal entities and small businesses are relatively large. Still, this estimate should be considered with a degree of caution, for as we have already stated it is possible that these costs are overstated.

We mentioned many problems relating to the research. One of them is that, although we attempted to exclude them from this investigation, it is possible that the CCC do include the costs related with matters such as transport, loading and unloading and so on, which are not CCC. Then it is possible that some part of the costs relating to VAT and excise on import compliance are included within the CCC. Finally, in the Customs Administration there is only the number of small businesses that are importers shown together with the number of farmers that are importers. We assume that most of the importers are small businesses, but should mention that because agricultural importers are included in our calculation, the estimated CCC for small businesses and legal entities are bound to be somewhat higher. Unfortunately we have to mention once again that there is no foreign research with which we might compare the results displayed.

It is nevertheless possible to compare the CCC for legal entities and small businesses, which come in the RC to about 1.7% of the value of their imports, with the results of the Cecchini Report, as it is called. Although the results of this report were highly criticised, it is estimated in it that the total costs borne by legal entities because of taxes, customs and statistical reporting about the size of trade among EU countries came in 1986 to about 2% of the total value of trade among EU countries (Verwaal and Cnossen, 2002).

One of the most important questions is certainly why is it that the CCC come to as much as about 26% of the customs revenue collected? We have tried to answer that question in this work. Among other things on one the one hand the reason lies in the changes in the

customs system in 2000 (entry of Croatia into the WTO, passing of the new Customs Law), but also the illogical and ill-defined customs regulations and so on because of which the CCC have risen. On the other hand, Croatia's entry into the WTO and the new Customs Law have resulted in the reduction of import tariffs, and hence of customs revenue. Since a reduction in customs revenue is expected in the future too (Kesner-Skreb, Kulis, 2001) it is possible and logical that the CCC are, and will continue to be, large as against customs revenues.

Sandford (2000), it is true, states that the total CCC (in our case) can be lower than those shown in these calculations. The reasons are the monetary benefits for the taxpayer if the tax (in this case customs duty) is paid in arrears, and the spin-off benefits deriving from the easier running of the legal entity or trade with the assistance of the more exact and comprehensive records necessary for tax (customs) compliance. The said benefits are not considered in this paper, because of the absence of data.

After this delineation of the results concerning the CCC in the RC come recommendations about how to reduce the CCC and for future investigators in the same area.

8. RECOMMENDATIONS

8.1. Recommendations to the Customs Administration

The purpose of investigating the CCC in the RC was to show how to reduce the existing CCC. Verwaal and Donkers (2001) list transaction-related economies of scale, simplicity of customs procedures and the use of advanced information and communication technology as the basic determinants of the size of the CCC. These are the areas through which, these authors state, it is possible to bring about some reduction in the CCC.

We agree with these conclusions. First of all because the research has shown that the CCC in the RC grow regressively, that is the CCC are relatively a greater burden on smaller legal entities and small businesses. The logical conclusion follows that it pays to import more or to use transaction-related economies of scale. Then, in this research, it was showed that importers in the RC have the most problems with customs laws and procedures that change too frequently (40%), with customs decrees that are inarticulate and illogical (18%) and that they have some problems with customs personnel (12%). Apart from that, the investigation established that in 84% of cases the submission of SADs on-line simplified the customs procedure for importers.

Thus for better cooperation between importers and the CA it is important that the customs system and legislation are simple, clear and unambiguous, as well as lasting and predictable. Also important is that decisions, interpretations and resolutions of customs disputes be made public. It is essential to encourage the submission of the SAD on line, and improve the accessibility of information via electronic means, so that all information related to customs laws, regulations, procedures and the practice of the customs administration should be accessible to all participants as soon as possible.²⁶

Galinec and Jurlin (2002) also state the necessity of computerisation, but also point out that current priorities in the domain of the Customs Tariff is the removal of remaining shortcomings with respect to harmonisation and unification, and the establishment of a joint system of transit procedures with neighbouring countries. For this purpose it is necessary to develop a Customs information system compatible with similar systems in the countries of EU, from the points of view of hardware, software and telecommunications. The basis for such an information system should be the Automatic System for Customs Data (ASYCUDA) developed by UNCTAD, broadly accepted worldwide.

²⁶ Praiseworthy indeed is the existence of the Web site of the CA, with a number of useful and interesting data; see <http://www.carina.hr>.

Similar and some other methods for the reduction of the CCC are suggested by the WCO. Along with standardised, simplified customs procedures, the maximum use of information technology it is essential constantly to develop and perfect customs control (greater selectivity of control) (WCO, 2003). The improvement of customs control would certainly result in the acceleration and simplification of the customs procedure. All this should result in greater transparency and predictability for all those engaged in international commerce.

The interviewees propose that agents/forwarders should be informed at once and in detail about every, even the smallest, change in the customs regulations. They also say that better communication between customs houses is necessary, so that customs regulations should not be interpreted in different ways. It is also important for there to be as many narrowly specialised and highly qualified customs officers and agents as possible, and that more customs houses should have the inspection departments (phyto, veterinary, market and so on) so as to speed up the customs procedure.

Galinec and Jurlin (2002) put forward similar arguments. They claim that in the RC, the level of technical and staff preparedness at customs crossings has improved, but should nevertheless be raised to a still higher level in order to cut the time vehicles spend waiting at the border crossings for the customs procedure. They also state that the crossings must be furnished with contemporary equipment for the purpose of customs control of agricultural products, the use of which is entailed by the provisions of the CAP. For the present, that is, the number of international border crossings at which there is a veterinary and phytosanitary department is limited, and the working hours of these departments is short, which means long waits for customs and thus increases the operating costs of haulage firms. They also state that the education of customs employees can be carried out by having them involved in EU customs employee training programs (such as the MATTHEUS program).

From all this, it can be seen that the Customs Administration still has to cope with the not very simple tasks of updating its computerisation, simplifying its procedures and expert team-building, better communications with importers and improved efficiency. Also necessary is improvement of the technical equipment of the customs crossings and the incessant development and improvement of customs control. A positive thing is that the Customs Administration, with the help of a World Bank loan, has already started working on some of these projects as part of the “Trade and Transport Facilitation in Southeast Europe” project (Kovačević, 2002).

As well as this, it should be pointed out that it is necessary to have in society as a whole further democratisation, advances in law and order, more transparent public finances which would certainly lead to reductions in the CCC.

8.2 Recommendations to importers

After this statement of what the CA should do to reduce the CCC, the question arises: what could and should importers do to reduce their own costs? Since we have shown that the CCC are a disproportionately greater burden on legal entities that import less, importers should do their best to import as much as possible. They should also make use of existing opportunities for simplified customs clearing and the advanced communications technology, including submitting their SADs on-line.

8.3. Recommendations to investigators in the area of the CCC

Now follow a series of recommendations to investigators in the domain of CCC. Since the methodology for investigating the CCC is a considerable problem, it has to be selected with great care.

Firstly, because of the series of conceptual and methodological problems that research encounters at the very outset, it is necessary to know the existing literature concerning the costs of tax or customs compliance, and also to consult people with practical knowledge who deal with the customs procedure every day, in order to be able precisely to define what can be investigated and who should be asked. In every investigation the number of hypotheses to be tested should be restricted. This investigation, that is, endeavoured to test too many hypotheses, and the questionnaire turned out to be too long and too complicated. This ultimately had a negative effect on the representativeness of one of the samples.

Although investigative zeal for as large a quantity of accurate data as possible is highly understandable, and the situation is not made any easier by the material sometimes being fairly complicated, if a large population is to be investigated, from the experience of this research it would seem to be best to keep the questions quite simple and easier for the interviewees to answer.

It would be good to reduce the number of people needing to be interviewed in order to fill in a single questionnaire. Because of the large number of people needing to be interviewed (as many as three sometimes) for the completion of a single questionnaire in this investigation it was not possible to interview enough people. This ultimately led to the tradesman sample being unrepresentative and the data collected being impossible to analyse in any detail.

In connection with methodology, we should say that in any subsequent investigations it would be best for the investigators themselves to carry out the pilot projects. In this way

they would be sure which questions are unclear for the interviewees and what needs changing so the questionnaire should be as intelligible and acceptable as possible to them.

9. CONCLUSION

A customs system has an important impact on the magnitude of international commerce. The CCC (even if they are very small) result in a diminution of international trade. From this it follows a reduction of the CCC can considerably increase the economic competitiveness of individual importers and the whole of an economy. It is argued that international trade usually increases employment, economic growth and thus leads to a better standard of living. For this reason the objective of each state is to reduce the CCC, that is, among other things to simplify and harmonise the customs procedure so as to foster and speed up its international trade.

Because of these and other reasons mentioned in this research the CCC in Croatia in 2001 were investigated. The results of the research need to be considered with a caution, in particular because some non representative and small samples and very little literature available concerning these costs. But since the research of this kind has never been done in RC, the results from this research can be used as rough indicators of possible real trends in the population.

Thus the results of the research point that the CCC in the RC in 2001 were large. It is estimated that in 2001 they came, for all legal entities and small businesses combined, to 1,006 million HRK. This is 0.6% of GDP, 1.7% of the value of all their imports, and is equivalent to 26% of total customs revenue collected. It has been pointed that the costs are regressive for both legal entities and small businesses, that is, that smaller legal entities and small businesses have disproportionately greater CCC. Along with these basic results, the investigation arrived at a number of other interesting results and recommendations.

There is not, unfortunately, a single foreign investigation of the CCC that could be used as a comparison. What is more the research faced many problems (eg. nonrepresentative and small samples) and one should be cautious when using its results. For this reason we would conclude that the primary purpose of this investigation is that it should help us to pose the relevant questions related to the size and characteristics of the CCC in the RC and to point out the right road for new investigations.

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Annex 1. The structure of legal entities and small businesses interviewed according to geographical area

Small businesses

Settlement	N	%
Zagreb	4	24
Split	6	35
Varaždin	6	35
Velika Ves	1	6
Total	17	100

Legal entities

Settlement	N	%
Zagreb	32	64
Split	4	28
Varaždin	4	8
Total	50	100

The structure of legal entities interviewed according to the value of their imports

Value of imports in 2001 (in 000 HRK)	Number in population	% population	Number in sample	% sample
Up to 100	6823	37	4	8
100 to 500	4737	26	8	16
500 to 1 000	2018	11	10	20
1 000 to 5000	3320	18	10	20
Over 5 000	1524	8	18	36
Total	18422	100,00	50	100

Annex 2: Relationship between the amount of the imports of a legal entity and the payment contract it had with agents for customs compliance (in %)

Value of imports in 2001 (in 000 HRK)	Fixed price for each SAD	According to a minimum and maximum fixed price	Ad valorem (in per mille of the value of the imports)	Some other way	Don't know/No answer	Total
Up to 100	50		50			100
100 to 500	30		30	20	20	100
500 to 1 000		25	75			100
1 000 to 5 000	22		78			100
over 5 000	33		67			100
Total	34	2	54	5	5	100

Annex 3. Estimates of regression equations – EViews output

Dependent Variable: LOG(TRUVOZ)

Method: Least Squares

Date: 02/28/03 Time: 14:05

Sample: 1 50

LOG(TRUVOZ)=C(1)+C(2)*LOG(UVOZ)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	9.375816	1.286479	7.287966	0.0000
C(2)	-0.572567	0.084874	-6.746055	0.0000
R-squared	0.486682	Mean dependent var		0.83832
Adjusted R-squared	0.475988	S.D. dependent var		2.257311
S.E. of regression	1.634038	Akaike info criterion		3.859164
Sum squared resid	128.1639	Schwarz criterion		3.935645
Log likelihood	-94.47909	Durbin-Watson stat		2.231389

Dependent Variable: LOG(TRDEKL)

Method: Least Squares

Date: 02/28/03 Time: 14:05

Sample: 1 50

LOG(TRDEKL)=C(1)+C(2)*LOG(UVOZ)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	11.24362	1.340516	8.387531	0.0000
C(2)	-0.265685	0.088439	-3.00415	0.0042
R-squared	0.158263	Mean dependent var		7.282013
Adjusted R-squared	0.140727	S.D. dependent var		1.836817
S.E. of regression	1.702674	Akaike info criterion		3.941455
Sum squared resid	139.1568	Schwarz criterion		4.017936
Log likelihood	-96.53638	Durbin-Watson stat		2.005996

Dependent Variable: LOG(TRCAR)

Method: Least Squares

Date: 02/28/03 Time: 14:06

Sample: 1 50

LOG(TRCAR)=C(1)+C(2)*LOG(UVOZ)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	3.074682	1.262138	2.436091	0.0186
C(2)	-0.314595	0.083268	-3.778082	0.0004
R-squared	0.229212	Mean dependent var		-1.616217
Adjusted R-squared	0.213154	S.D. dependent var		1.807262
S.E. of regression	1.60312	Akaike info criterion		3.820959
Sum squared resid	123.3598	Schwarz criterion		3.89744
Log likelihood	-93.52398	Durbin-Watson stat		1.97041