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NOTE

From: Presidency
To: Delegations

Subject: Customs reform: Taking the Customs Union to the next level - Policy
debate
- Steering note by the Presidency

Delegations will find in the Annex the above-mentioned note with a view to the meeting of the Council (Economic and Financial Affairs) on 14 July 2023.

**CUSTOMS REFORM: TAKING THE CUSTOMS UNION TO THE NEXT LEVEL -
POLICY DEBATE**

Steering note by the Presidency for ECOFIN

To guide the policy debate, which will take place during the meeting of the Council (Economic and Financial Affairs) on 14 July 2023, the Presidency has prepared a note regarding the EU customs reform for consideration by Ministers.

I. INTRODUCTION

The Customs Union is at the core of European integration and prosperity: with its large exporting industry, the European Union benefits strongly from being connected with the rest of the world through international trade, while goods can move freely within the EU Single Market.

Customs are the guardian of the Single Market and supply chain security. Customs supervise all goods entering or leaving the Customs Union, identify risks based on trade and security intelligence and carry out controls at the border –often on behalf of other agencies– to ensure that EU rules are enforced.

Throughout recent crises, and despite the limitations of the current framework, customs have successfully delivered. Customs have played an essential role in the EU’s response to the last crises, monitoring the transit of vaccines and medical equipment, while adapting to disrupted and shifting global supply chains during the COVID-19 pandemic, facing the change of the boundaries of the Customs Union in 2021 with the end of the transition period following the orderly withdrawal of the United Kingdom from the EU. It is applying the EU sanctions after Russia’s war of aggression against Ukraine.

A well-functioning Customs Union is fundamental to the EU's competitiveness and resilience. The early 2020s have been marked by shifts and disruptions in global supply chains, re-emphasising the need for the EU to reduce its strategic dependencies. For EU businesses to prosper in this new era and to keep and develop production capacities within the Single Market, a level playing field with non-EU producers is key. International competition can only work to the mutual benefit of trading partners when rules, including the WTO framework, are applied and enforced. Addressing unfair competition and production methods that undermine the EU's health, safety and security standards or exploit the environment or forced labour benefits the EU and its trading partners.

Customs are increasingly burdened with an ever-growing range of tasks. In the last years the EU has agreed on a significant portfolio of very ambitious legislation setting environmental, safety, health, social and digital standards that shape the way businesses operate within and beyond the Single Market. The steady increase of tasks related to the enforcement of EU legislation on prohibitions and restrictions has resulted in significant pressure on customs. This challenge is intensified by a drastic increase in trade volumes, largely driven by the **extraordinary growth of e-commerce** which generates an exponential number of small packages of low-value goods, accounting for almost 1 billion import customs declarations in 2022 - 70% of overall declarations.

In 2013, the European Union adopted the Union Customs Code (UCC), which has been in force since May 2016 and has as its main goal to move EU Customs to a paperless, integrated and fully electronic environment. For that purpose, the UCC requires the deployment of a series of IT systems by the end of 2025, most of them national IT systems, partially interconnected through trans-European systems. It focuses on digitalising existing processes without changing underlying principles.

On 17 May 2023, the Commission put forward **proposals for the most comprehensive reform of the EU Customs Union** since its establishment in 1968.

The Commission submitted a package for customs reform containing the following texts:

- Communication from the Commission on Customs reform: Taking the Customs Union to the next level¹.
- Proposal for a Regulation of the European Parliament and of the Council establishing the Union Customs Code and the European Union Customs Authority, and repealing Regulation (EU) No 952/2013².
- Proposal for a Council Regulation amending Regulation (EEC) No 2658/87 as regards the introduction of a simplified tariff treatment for the distance sales of goods and Regulation (EC) No 1186/2009 as regards the elimination of the customs duty relief threshold. COM (2023) 259 final³.
- Proposal for a Council Directive amending Directive 2006/112/EC as regards VAT rules relating to taxable persons who facilitate distance sales of imported goods and the application of the special scheme for distance sales of goods imported from third territories or third countries and special arrangements for declaration and payment of import VAT⁴.

¹ Doc. ST 9622/23.

² Doc. ST 9596/23 + ADD1 + ADD2 + ADD3 + ADD4.

³ Doc. ST 9625/23 + ADD1.

⁴ Doc. ST 9638/23.

II. MAIN CONTENT OF THE REFORM

The Spanish Presidency would like to start with a first analysis, debate, and consideration of the Communication from the Commission on Customs reform: Taking the Customs Union to the next level. This Communication contains, summarises, and describes the main elements and key features of the proposals.

The proposals, as expressed in the Communication, are constructed under three main pillars or objectives:

A new partnership with business

Businesses that want to bring goods into the EU will be able to log all the information on their products and supply chains into a single online environment: the new EU Customs Data Hub. Businesses will only need to interact with one single portal when submitting their customs information and will only have to submit data once for multiple consignments. In some cases where business processes and supply chains are completely transparent, the most trusted traders ('Trust and Check' traders) will be able to release their goods into circulation into the EU without any active customs intervention at all. The Trust & Check category strengthens the already existing Authorised Economic Operators (AEO) programme for trusted traders.

The Data Hub will open for e-commerce consignments in 2028, followed (on a voluntary basis) by other importers in 2032, leading to immediate benefits and simplifications. Trust & Check traders will also be able to clear all of their imports with the customs authorities of the Member State in which they are based, no matter where the goods enter the EU. A review in 2035 will assess whether this possibility can be extended to all traders when the Hub becomes mandatory as from 2038.

A smarter approach to customs checks

The reform proposes to introduce a decentralised agency in the Customs Union governance framework: the EU Customs Authority. The new agency will develop and run the new EU Customs Data Hub and carry out EU risk management and crisis coordination. This complementary layer will help Member States prioritise the right risks and coordinate their checks and inspections –especially during times of crisis– based on the information and expertise pooled at a central level.

The proposed new system will give customs authorities a bird’s-eye view of the supply chains and production processes of goods entering the EU. All Member States will have access to real-time data and will be able to pool information to respond together more quickly, consistently and effectively to risks. The new regime will substantially improve cooperation between customs and market surveillance and law enforcement authorities at the EU and national level, including information sharing via the Customs Data Hub.

A more modern approach to e-commerce

The reform will make online platforms key actors in ensuring that goods sold online into the EU comply with all customs obligations. This is a major departure from the current customs system, which puts the responsibility on the individual consumer and carriers. As is already the case for VAT, platforms will be responsible for ensuring customs duties are paid at purchase, so consumers will no longer be hit with hidden charges or unexpected paperwork when the parcel arrives. With online platforms as the official importers, EU consumers can be reassured that all duties have been paid and that their purchases are safe and in line with EU environmental, safety and ethical standards.

At the same time, the reform abolishes the current threshold whereby goods valued at less than €150 are exempt from customs duty, which is heavily exploited by fraudsters. To avoid the increase of the administrative burden on e-commerce, since 2021, every parcel must be accompanied by an electronic customs declaration to check whether VAT has been levied and a simplified method for calculating the applicable import duties is proposed.

III. STATE OF PLAY AND WAY FORWARD

The Commission presented its proposals on 26 June 2023 to the Working Party on Customs Union (CUG) in a High-Level configuration attended by Customs Directors General, under the Swedish Presidency, where there was a first opportunity for general comments and exchange of views on the customs reform.

Based on this, Ministers will be informed about the proposed customs reform and will be given the opportunity to share their first reactions. To prepare the grounds for the upcoming Council discussions and to give political guidance, ECOFIN **Ministers are invited to express their views on the main key aspects of this package**, as featured in the Communication from the Commission on Customs reform. In particular, they are invited to exchange views on the following questions:

- Do Ministers support the reform objectives as presented in the communication?
- Do Ministers recognise the added value of the key measures of the proposal, i.e. a complementary EU risk management layer, new rules for e-commerce, a single central Data solution, and a new EU Customs governance?
