

EU reforms of Customs, VAT and E-commerce, and Brexit for the Logistics industry

Alliance for European Logistics
May 2017

The Alliance for European Logistics (AEL) is a one-of-a-kind industry coalition bringing together companies that provide and use logistics services in Europe. Launched in November 2008, AEL builds on the shared commitment of its members¹ to enhance the logistics industry's profile among European policymakers. The AEL collaborates closely with European institutions and stakeholders to raise awareness of the unique role that logistics plays in helping the EU achieve its policy goals for 2020 and beyond.

Contributing to 14% of the EU GDP and employing over 11 million people in the EU,² the logistics industry is a bedrock of the EU Internal Market and an essential element for the functioning of countless other industries along the value chain. It is estimated that in the EU logistics costs represent about 10-15% of the final value of products, and about half of these costs could be saved if obstacles were removed.³ These obstacles include high administrative burden and inefficient transport chains, lack of infrastructure and the non-completion of the internal market. Completion of the EU Single Market and trade facilitation through simplified and effective cross-border procedures for customs and VAT clearance can ensure the efficient and reliable flow of goods and information that is essential to globally integrated supply chains.

Border administration is a key element of trade facilitation. With one market, logistics' efficiency would be enhanced and transaction costs reduced, resulting in savings of over 2 billion euros a year. Compliance and enforcement should be harmonised in order to avoid fragmentation of the European market with regard to tax, customs, safety and security. Yet the ETI results show that the potential of streamlining border administration remains untapped.⁴ As regards e-commerce, for example, different rules on customs, cross-border shipping, or VAT in different EU countries are not only an obstacle for SMEs but also for big firms. The estimated direct cost of non-Europe associated with gaps in the Digital Single Market relative to e-commerce, range between 36 to 75 billion Euros per year (0.3 to 0.6% of EU GDP).⁵

Customs & Trade

Globally integrated supply chains and trade routes require efficient, reliable and effective rules, especially for the performance of the logistics industry,⁶ that is active at all stages of the process. With the new Union Customs Code (UCC), which entered into force on 1 May 2016 with an implementation phase running to December 2020, and the WTO Trade Facilitation Agreement (TFA) that entered into force on 22 February 2017, there is great potential to increase trade, and ease and simplify administrative and customs procedures across all modes and stages in logistics chains.

The UCC in particular aims at facilitating and streamlining customs procedures while optimising the fight against illegal trade and creating a level playing field for all economic operators, based on full automation

¹ Current members include: BASF; Deutsche Post DHL; duisport; Hapag-Lloyd; Hutchison; Michelin, and SAP.

² European Parliament, [Report on logistics in the EU and multimodal transport in the new TEN-T corridors](#), January 2017.

³ European Commission, [factsheet on Logistics](#).

⁴ WEF, [Enabling Trade Report 2016](#), at 21.

⁵ EPRS, [The Cost of Non- Europe in the Single Market](#)

⁶ World Bank, [Logistics Performance Index](#)

of processes and procedures with a harmonised implementation by Member States to achieve cost-efficient and timely handling of all imports and exports.

As the most integrated customs union and the largest free trade area in the world, the EU should continue to work closely with the logistics industry to secure stakeholder buy-in for an appropriate and graduated implementation of measures contained in the UCC, including centralised clearance, electronic data processing, a single-window for all administrative controls and trade simplifications. As an industry body representing the logistics industry, we consider that:

- **Complex customs rules and procedures can have a negative impact on free trade, therefore simplified customs procedures should be available** to all economic operators and **customs’ systems be aligned at EU level**, so as to integrate smoothly in global supply chains and trade flows. Diverging customs and security procedures between Member States can create administrative burdens for the logistics industry. Therefore the EU should encourage simplification and harmonisation, especially by facilitating the removal of inconsistent or contradictory requirements at EU level.⁷
- **Customs procedures should enable the use of the most efficient and direct routes**, by rationalising rules and accommodating clearance by different customs authorities, so as to avoiding duplications, as well as prioritising and favouring the shorter and more cost-effective route for transport.
- **Trade facilitation measures for e-commerce, ensuring simplified customs procedures for low value shipments** and generally taking into account the business models of **e-commerce** in the area of customs and taxation, and developing **e-Customs** and **e-Taxation solutions** should be a priority.
- Since under the UCC low-value express shipments will no longer enjoy facilitated clearance, costing for instance about EUR 163 million to the express industry,⁸ **simplified customs’ clearance of low value consignments and shipments at export should be prioritised in line with facilitations available for UPU shipments**, as often the cost of processing low-value express shipments is higher than the respective revenue collected by customs authorities.
- A global **standardised and harmonised border management systems** should be promoted, to facilitate trade and enforce customs and security rules as efficiently and early in the supply chain as possible. **Enforcement of the requirements of the WTO Trade Facilitation Agreement** should be complemented with **ambitious trade agreements that** eliminate barriers, cover customs provisions and cut red tape to increase trade flows.
- In the implementation of the UCC, **a balance should be struck between trade facilitation and customs control efficiency: requirements of the 6-digit HS code** to identify shipments, including transit and *de minimis*, will create additional costs for the industry. Moreover, the cases where evidence for the **empowerment of acting as customs representative** is needed must be defined to avoid undue expansion of the requirement to each case.
- The European Commission and EU Member States should continue to **cooperate closely with the logistics industry in implementing the UCC**, notably in the process of upgrading national import and export systems with the modernisation of IT infrastructure.

⁷ European Commission, [Fact-finding studies in support of the development of an EU strategy for freight transport logistics Lot 1: Analysis of the EU logistics sector, Final report](#), January 2015, at 176.

⁸ Briefing note – Union Customs Code (UCC) – March 2017

VAT and E-commerce

It is estimated that a 10% reduction in VAT administrative procedures could boost intra-EU trade up to 3.7% and GDP up to 0.4%.⁹ This would be also an opportunity for the logistics industry, considering that cross-border trade costs are 11% higher than domestic, then the administrative burden associated with VAT compliance is especially limiting for e-commerce and burdensome for SMEs.¹⁰ The fragmentation of the EU VAT system is indeed one of the biggest barriers to online cross-border sales in the Single Market, leaving the full potential of e-commerce untapped: only 15% of consumers buy online from other EU states and 8% of EU companies sell cross-border.¹¹

The European Commission's VAT Action Plan published in April 2016 aims at modernising VAT for cross-border B2C e-commerce while establishing Single EU VAT Area through a simpler definitive VAT system, the removal of VAT obstacles for SMEs, a common VAT rates policy, and a [Work Programme for 2017](#) which includes a VAT REFIT package covering proposals on e-commerce. In addition, to unlock the potential of e-commerce, the Commission adopted a package of proposals to stop unjustified [geo-blocking](#), increase transparency of [parcel delivery](#) prices, and improve enforcement of [consumers' rights](#).

The logistics industry provides the backbone for cross-border trade, including e-commerce, and it will be affected by all the changes in rules applicable to VAT and e-commerce alike. AEL considers that:

- In the context of cross-border e-commerce, **different VAT treatment** between Member States, certain special suppliers, and/or physical and electronic version of the product,¹² **can cause fragmentation and distortions to the functioning of the EU Single Market**. Progress towards a European VAT area should then be pursued, as basing the system on 28 different procedures is inefficient.¹³
- Existing reduced rates and derogations should be maintained, and import **VAT exemption for small value consignments** should also remain or be substituted with a self-assessment based method, in the move to **VAT collection as a periodic requirement rather than collection on each transaction**.
- **Cross-border e-commerce should be encouraged**, notably by establishing a 'one-stop-shop' **single web portal** like the 'e-services' rule that exist for services to allow VAT on domestic and EU sales, as well as introducing a VAT-free threshold to allow facilitate cross-border trade by start-ups and micro businesses. Moreover, the **potential of big data and digitalisation to improve supply chain efficiency** (e.g. through tracking & tracing), security and resilience should be harnessed.
- **The removal of the VAT *de minimis* should be avoided**, balancing cost of VAT collection with revenue for the administration. If not, a lean, simple and cost-effective VAT collection model must be implemented in order to avoid creating a non-tariff barrier and damaging e-commerce growth in the long run.
- **Improving existing infrastructure should be prioritised**, notably through transparency across all modes and paperless information exchange between different actors.
- The European Commission and Member States should **continue to cooperate closely with economic operators in implementing VAT reforms**, notably in the context of the proposals on a definitive VAT regime, on granting Member States leeway in fixing VAT rates, and on the comprehensive

⁹ European Commission, DG TAXUD (2011), [A retrospective evaluation of the elements of the VAT system](#).

¹⁰ European Commission, [Action Plan on VAT](#)

¹¹ European Commission, [Boosting e-commerce in the EU](#)

¹² [Simplifying and Modernising VAT in the Digital Single Market for e-Commerce](#), IMCO Study for the European Parliament, September 2012.

¹³ European Commission, Action Plan VAT Q&A

simplification package for SMEs, which includes a review of the SME scheme for VAT. Particularly, the dialogue between internet platforms and tax authorities to improve VAT collection in e-commerce should include the logistics industry wherever practical and sensible.

Brexit

The UK decision to leave the EU pose complex challenges to the logistics industry, as it may disrupt European and global supply chains and cross-border trade between the UK and the EU. As the UK Government has confirmed its ambition to exit the Customs Union to pursue new free trade agreements with third countries, tariff and non-tariff barriers could arise, including through the reinstatement of customs declarations and clearance procedures. Such a situation could create challenges for the logistics industry in the UK and in the EU and could potentially result in a rise of costs for both Governments and industry alike.

With regard to the future trade relationship between the UK and the EU any future trade agreement should keep disruption of supply chains and trade flows to a minimum. Transitional arrangements will be crucial in this regard.