The Future of EU Customs: Challenges, Opportunities, and Implications

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The rapid expansion of e-commerce has fundamentally reshaped global trade, presenting both opportunities and challenges for customs systems worldwide. In the European Union (EU), cross-border online sales have surged, necessitating reforms to modernize the Customs Union and adapt it to the complexities of the digital economy. This paper examines the pressing need for change in customs policies, driven by increased parcel volumes, evolving business models, and the rise of e-commerce. In 2023, EU customs authorities processed over 2.6 billion imported items, with a significant portion declared under the H7 regime for low-value goods. The current system, originally designed for bulk shipments, struggles to ensure compliance with VAT, customs duties, and safety regulations, leading to revenue losses and the infiltration of non-compliant or counterfeit goods. However, industry representatives emphasize that revenue losses are also linked to systemic undervaluation practices, rather than being solely due to the de minimis exemption. According to European Anti-Fraud Office (OLAF) investigations, certain sectors, such as textiles and footwear, have seen systematic undervaluation practices that significantly impact the EU budget. To address these challenges, the European Commission has proposed a series of reforms, including centralized clearance, digitalization of customs processes, enhanced risk management, and collaboration with e-commerce platforms. While these measures aim to create a resilient, efficient, and future-proof Customs Union, business stakeholders stress the importance of risk-based enforcement and improved data-sharing to ensure compliance without overburdening businesses. They emphasize that reforms should focus on enhancing customs capacity and modernizing enforcement mechanisms rather than solely relying on increased compliance obligations for platforms and importers. The proposed changes will not only affect trade within the EU but will also have implications for EU candidate countries such as Moldova and Ukraine, which align their customs regulations with EU standards. Ensuring a smooth transition and regulatory predictability will be key in fostering trade relations between the EU and its future members. Customs policies may be better supported by the EU, protect income sources, and encourage fair competition by being in line with the reality of contemporary commerce. However, we emphasize that reforms should be implemented in a manner that does not disproportionately impact SMEs or create unintended monopolization within the e-commerce sector.

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List of Abbreviations

- **AEO** – Authorized Economic Operator
- **AI** – Artificial Intelligence
- **B2C** – Business-to-Consumer
- **DCFTA** – Deep and Comprehensive Free Trade Agreement
- **EC** – European Commission
- **ECJ** – European Court of Justice
- **AP** – Asia - Pacific
- **ESA** – East and Southern Africa
- **EU** – European Union
- **EUR** – European Region
- **GDP** – Gross Domestic Product
- **GNI** – Gross National Income
- **H7** – Low-value customs declaration type
- **IT** – Information Technology
- **MENA** – Middle East and North Africa
- **MEP** – Member of the European Parliament
- **MS** – Member State
- **NGO** – Non-Governmental Organization
- **OLAF** – European Anti-Fraud Office
- **PPP** – Public-Private Partnership
- **R&D** – Research and Development
- **SME** – Small and Medium-sized Enterprise
- **UCC** – Union Customs Code
- **UK** – United Kingdom
- **VAT** – Value Added Tax
- **WCA** – West and Central Africa
- **WCO** – World Customs Organization
- **WTO** – World Trade Organization

1. Introduction

1.1 Overview of the EU Customs Code Reform

The Union Customs Code (UCC), which was first adopted in 2013, is undergoing major amendments by the European Union (EU) to keep up with the swift developments in digital marketplaces and international commerce. [1] The European Commission proposed a thorough revision of the UCC on May 17, 2023. [2] The goal of the reform is to establish a more cohesive and effective customs structure across the 27 Member States, reduce structural inefficiencies, and adapt to the expansion of e-commerce.

The EU's goals to enhance the operation of its Single Market, guarantee fair competition, combat fraud, and increase revenue collection are reflected in the revised UCC. The plan is in line with the EU Customs Reform Strategy, which was introduced in 2022 and places a strong emphasis on the necessity of sustainability, digitization, and uniform enforcement across national borders. [3]

A key component of the reform is the creation of the EU Customs Data Hub, a centralized IT platform intended to unify the 27 national customs systems already in operation. Streamlining data exchange, streamlining trade processes, and improving the customs authority's surveillance capabilities are the goals of this invention. The Commission estimates that €2 billion would be needed annually to maintain the EU Customs Data Hub.[4] However, stakeholders emphasized needing a cost-benefit assessment to determine whether this consolidation will lower long-term national IT expenditures and create efficiency gains. The Data Hub is anticipated to handle a sizable number of customs data entries each year once it is fully operational, maybe surpassing hundreds of millions of current customs declarations, especially given the quick growth of e-commerce. About 2.6 billion imported goods were processed in 2023 alone, of which 2.1 billion were associated with low-value e-commerce shipments that were reported with H7 declaration type.[5]

The establishment of the European Union Customs Authority, which will supervise the execution of the reform, is another important component, and the body is foreseen to resolve long-standing disparities in administration and enforcement by confirming that customs procedures are administered consistently throughout Member States. However, we stress that customs enforcement must remain risk-based, focusing on high-risk shipments rather than imposing blanket requirements on all importers.

Additionally, the revisions address particular flaws in customs processes for e-commerce. To reduce gaps, the EU plans to eliminate the €150 exemption threshold for customs charges. Disparities between EU-based merchants and foreign sellers have long resulted from the exemption, especially in the e-commerce industry where minor shipments frequently avoid a thorough investigation. However, stakeholders stress that removing the exemption alone will not solve the issue of undervaluation or fraud. Instead, they advocate for enhanced risk-based assessment models, strengthened fraud detection, and better cooperation between customs and businesses.

According to the European Anti-Fraud Office (OLAF), the current approach and lack of proper control and enforcement lowers VAT and customs duty revenue, which has a major effect on the EU budget. For example, OLAF completed investigations into intricate cases of customs fraud in 2022 that involved the systematic undervaluation of imports, especially Chinese textiles, and footwear, which caused significant losses for the EU budget. [6] Furthermore, in 2022, the European Court of Justice declared that the United Kingdom had not implemented adequate customs control procedures in violation of EU law, resulting in the loss of around €2 billion in customs charges from 2013 to 2016. [7] On the other hand, it is argued that regulatory measures should not disproportionately impact compliant traders and should instead target fraudulent practices more effectively.

The removal of the Authorized Economic Operator (AEO) program has also raised concerns among stakeholders, as AEO status has facilitated trade for compliant businesses, particularly SMEs. Many companies have invested significantly in compliance, and eliminating these benefits could discourage voluntary compliance efforts. Industry representatives recommend maintaining simplified procedures for trusted traders to balance enforcement with trade facilitation.

The proposed changes will also impact EU candidate countries, such as Moldova, Ukraine, and Serbia, which are aligning their customs frameworks with EU standards. Ensuring a stable and predictable transition will be crucial to maintaining strong trade relationships.

Customs systems need to change to meet the demands of the modern global economy, which is what motivates the reforms. As Paolo Gentiloni, EU Economic Commissioner (2019–2024), stated:

"Many take the Customs Union for granted but tensions around the globe on trade security, changing business models and the rise of e-commerce reinforce the need for a strong Customs Union. I will strive to bring the Customs Union to the next level of effectiveness."[8]

The goal of the reforms is to build a more effective, and progressive Customs Union that can continue to support smooth trade both inside and beyond the EU's borders while adjusting to new difficulties, but we emphasize that reforms must be implemented in a way that does not create excessive administrative burdens or unintended monopolization within the e-commerce sector.

1.2 The Growing Importance of E-Commerce in EU Customs Policies

With cross-border online sales increasing over the past decade, the swift growth of e-commerce has drastically altered international trade. The entire B2C European e-commerce revenue increased by a moderate 3% in 2023, from €864 billion to €887 billion, according to research conducted by E-commerce Europe. [9] While this growth has created opportunities, it has also presented significant operational and regulatory challenges for customs authorities.

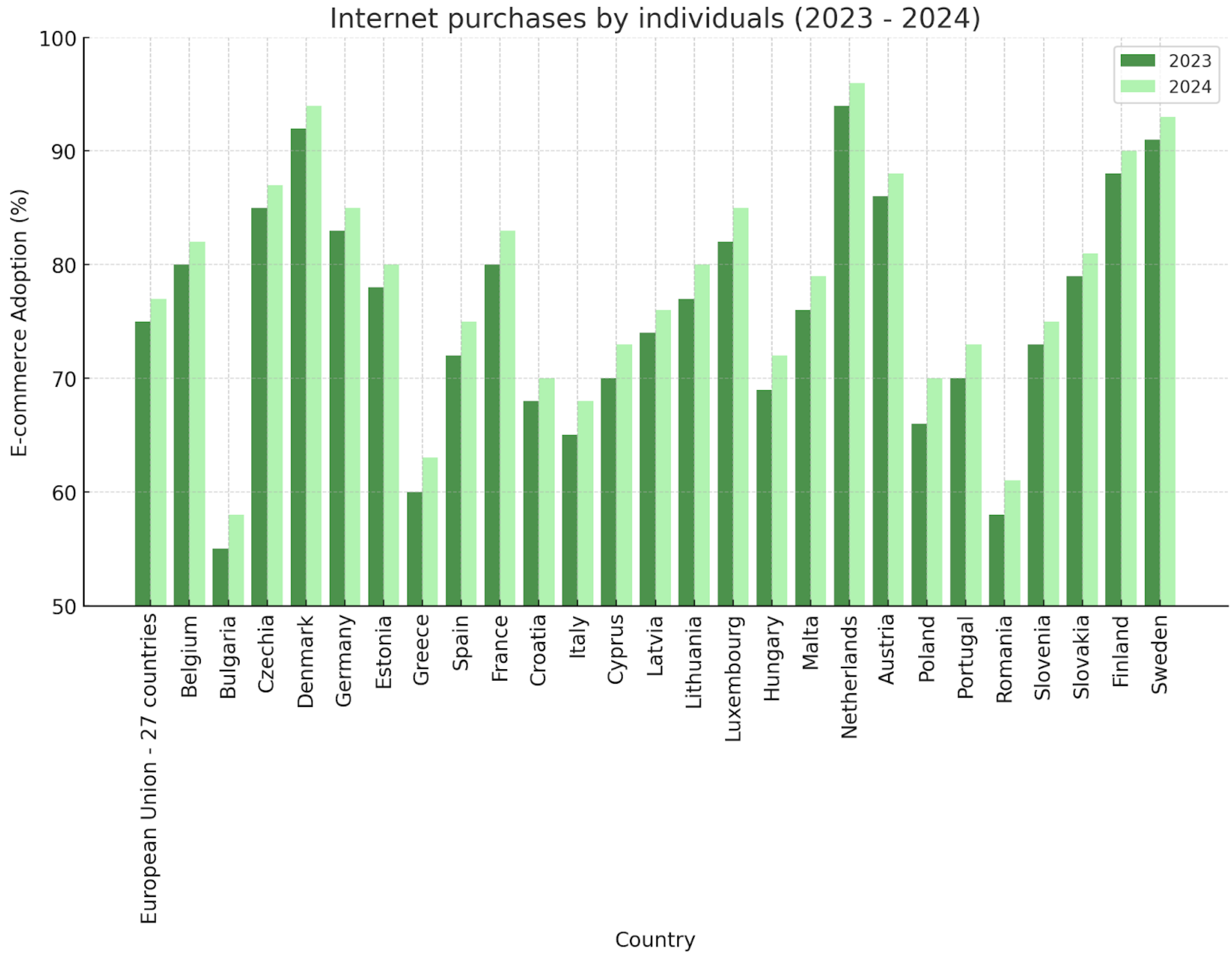

Figure 1: Internet purchases by Individuals (2023 – 2024)

Source: Eurostat [10]

The use of e-commerce has been increasing throughout the EU, as illustrated in the chart, with Denmark, the Netherlands, and Ireland leading the way in online purchases. The pattern emphasizes how urgent it is to modify customs laws in order to efficiently handle the growing amount of cross-border trade. The increasing use of e-commerce throughout the EU has brought attention to important operational and regulatory concerns for customs officials in addition to stimulating innovation and customer convenience. Due to the growth of e-commerce, the European Commission has seen a notable surge in small consignments entering the EU. About 2.6 billion imported goods were processed in 2023; 2.1 billion of them were filed as H7 declarations, mostly related to low-value e-commerce shipments. [11] Customs systems built for large shipments have been under a lot of strain due to this significant volume. Revenue losses and the introduction of non-compliant or counterfeit goods into the Single Market are frequently the results of this flood, which has made it challenging to monitor compliance with safety regulations, VAT, and customs charges.

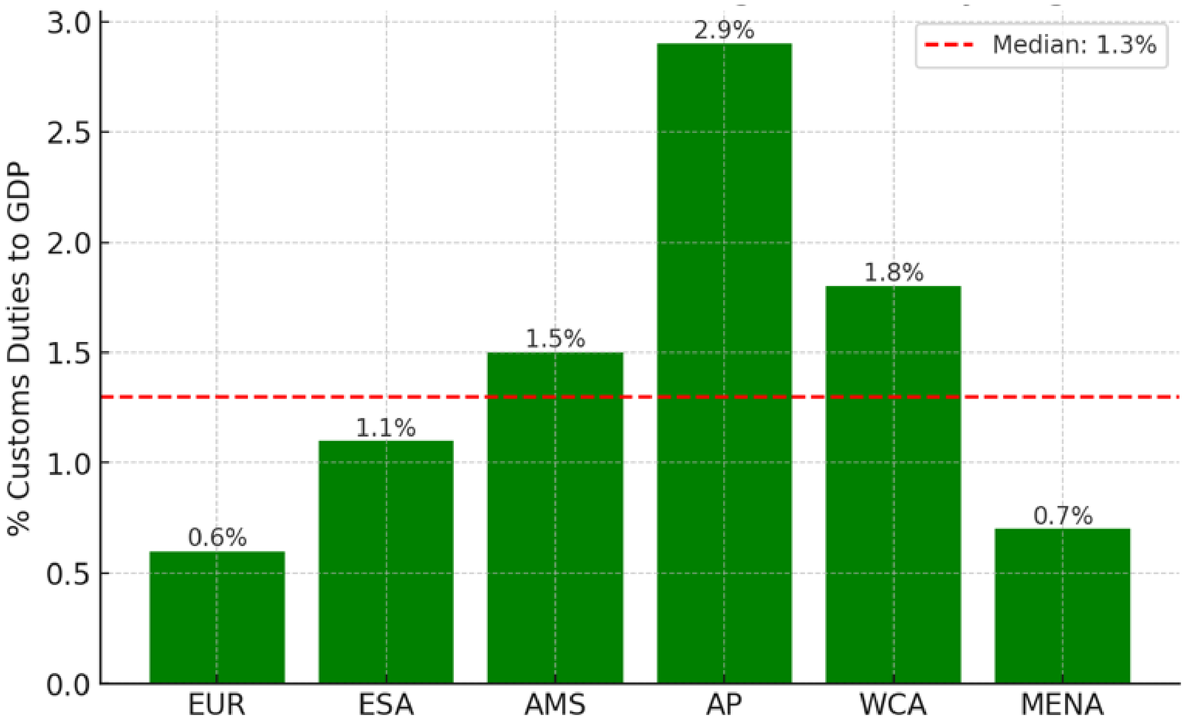

Figure 2: Custom Duties as a to GDP by region

Source: World Customs Organization

The customs duties-to-GDP ratio provides valuable insight into the economic structure of a region and its reliance on trade-generated revenue. As shown above, the EU's customs duties-to-GDP ratio is relatively low, with an average of 0.6% and a median of 0.2%, compared to other regions like Asia-Pacific (2.9%) or West and Central Africa (1.8%). [12] The EU's advanced economic structure, which depends more on varied revenue sources like income taxes and budgetary guarantees, borrowing than customs charges, is reflected in this low ratio. In 2023, the EU budget was primarily financed by Gross National Income (GNI)-based contributions, which accounted for €97,702.2 million, followed by budgetary guarantees, borrowing, and lending at €67,589.4 million, and customs duties at €22,081.3 million, showcasing the EU's diversified revenue streams beyond customs charges. [13] Additionally, it supports the EU's overarching objectives of promoting a free, integrated Single Market with low trade restrictions. While customs duties play a smaller role in EU public finances, their importance for trade regulation and market fairness remains high. However, business representatives caution that increasing compliance costs for e-commerce imports should not disproportionately burden consumers and SMEs.

However, the low ratio also draws attention to several weaknesses, especially given how quickly the e-commerce industry is growing. As a result, it is becoming more difficult to ensure compliance with safety rules, VAT, and customs charges. Given the small GDP contribution of customs charges, even little inefficiencies or revenue losses in such a system can have a disproportionate effect. The proposed customs changes seek to preserve trade facilitation while modernizing and bolstering enforcement capacities. To protect revenues, ensure compliance, and promote the EU's economic stability in an increasingly digital and linked trading environment, measures like centralized clearance, better digital tools, and improved collaboration with e-commerce platforms will be essential.

Another perspective is the growth of e-commerce has revealed weaknesses in customs processes. Stakeholders agree that undervaluation practices must be addressed but stress that eliminating the de minimis threshold is not a standalone solution. Consumers should be aware that the artificially low prices of many imported goods were often the result of fraudulent undervaluation practices, allowing non-EU sellers to avoid paying customs duties and VAT. This not only distorted market competition but also deprived public budgets of significant revenue. The reform gurantees fairer pricing mechanisms that reflect true market conditions rather than regulatory circumvention. Better enforcement through digital tools, enhanced cooperation with logistics networks, and real-time data-sharing between customs authorities and platforms would be more effective in tackling fraud. For example, some non-EU vendors have been systematically undervaluing shipments to avoid customs duties. [14] In addition to distorting competition, this behaviour erodes confidence in the Single Market's fairness. In response to these concerns, the Commission has proposed eliminating this barrier in 2023 to level the playing field for EU businesses although we emphasize that such requirements should be applied proportionally to avoid excessive administrative burdens on compliant traders.

The growth of e-commerce has increased the necessity for closer examination of environmental and product safety regulations in addition to economic ones. Electronics, toys, and textiles are among the many items that are often imported through e-commerce yet do not adhere to EU regulations. 2,117 alerts for hazardous non-food goods were registered by the EU's Safety Gate system in 2022; a sizable percentage of them were connected to online transactions made by non-EU vendors. [15]

Several measures that are adapted to the reality of e-commerce are included in the proposed changes to solve these issues. The proposed reforms aim to strengthen product safety enforcement by improving cooperation between customs authorities and market surveillance bodies. We support this goal but highlight the need for practical, risk-based enforcement mechanisms that do not disrupt legitimate trade. Among them are:

- Improved digital tools to help customs officials process customs data more quickly, including the EU Customs Data Hub.
- Mandatory data availability to force e-commerce platforms to share data on shipments from non-EU nations countries.
- United enforcement among Member States to avoid regulatory arbitrage.

According to the Commission, modifications are necessary to maintain the integrity of the Single Market while encouraging innovation and expansion in the digital economy. In an increasingly linked global economy, the new customs code aims to balance enabling commercial flows with guaranteeing strong compliance however we stress that regulatory changes should be accompanied by efficiency-enhancing measures, such as digital pre-arrival risk assessment and pilot programs to refine enforcement strategies before full implementation.

2. Proposed Customs Rules for E-Commerce

2.1 Elimination of the €150 Customs Duty Exemption

Rationale Behind the Change

Within EU trade policy, the €150 customs tax exemption has long been a source of dispute. Originally designed to streamline customs processes for marginal flows of small shipments, it does not fulfil its purpose nowadays. As of 2023, the **European Commission** estimates that up to **65%** of goods entering the EU are undervalued to evade import taxes. [16] Additionally, EU companies that completely comply with customs regulations face unfair competition due to these fraudulent tactics.

Furthermore, the growing volume of small parcels in e-commerce has overwhelmed customs offices across Member States. The surge has exposed significant gaps in enforcement capabilities under the current system, where low-value shipments are often inadequately inspected. However, it is argued that eliminating the exemption alone will not solve fraud or compliance challenges. Instead, they emphasize the need for:

- A risk-based approach that prioritizes enforcement against fraudulent practices rather than imposing broad administrative burdens.
- Enhanced digital customs solutions to facilitate smoother compliance for businesses and customs authorities.
- Strengthening cooperation between customs offices, logistics providers, and e-commerce platforms to enhance enforcement efficiency.

The reform suggests eliminating this exception to guarantee that all imports are subject to the proper customs tariffs levelling the playing field for both domestic and foreign merchants and standardizing customs procedures throughout the EU are the larger objectives of this modification.

Expected Impact on E-Commerce Stakeholders

The removal of the €150 exemption will have the following implications:

- **For Non-EU Sellers**: For Non-EU Sellers: Increased compliance obligations to declare accurate values for all shipments, correcting past regulatory loopholes that allowed some to circumvent customs duties and VAT.
- **For EU-based businesses**: A more level playing field as competitors from outside the EU will no longer enjoy the advantage of lower customs duties.
- **For Consumers**: While the change enhances fairness, it may lead to higher prices for imported goods due to additional duties and administrative costs. However, it is important to recognize that previously lower prices for many imported goods, particularly from China, were not a result of competitive pricing alone but also of free-riding on EU regulations. Many non-EU sellers systematically undervalued shipments to avoid duties, distorting competition with EU businesses that complied fully with regulations.
- **For Customs Authorities**: A significant increase in the number of declarations processed, requiring upgrades in infrastructure and training.

Stakeholders have raised concerns that removing the exemption without additional reforms could create administrative bottlenecks and unintended economic consequences. Key industry representatives suggest the following complementary measures to ensure a balanced approach:

- Gradual Implementation: Rather than an immediate removal, a phased approach over 2-3 years would allow businesses, customs authorities, and logistics providers to adjust without disrupting trade flows.
- Maintaining Simplified Procedures for Trusted Traders: Eliminating the Authorized Economic Operator (AEO) framework could unintentionally hinder SMEs and compliant businesses. Instead, a fast-track clearance process for trusted operators should be retained.
- Enhanced Digitalization: Automating customs clearance, pre-arrival risk profiling, and real-time data-sharing between e-commerce platforms and customs offices would help prevent fraud while minimizing delays.
- Customs Capacity-Building: Investments in staff training, infrastructure, and digital tools will be critical to ensure customs authorities can handle the increased volume of declarations.

The timeline for removing the €150 exemption should be coordinated with the broader customs reform process to ensure customs authorities have the necessary capacity—both in staffing and digital infrastructure—to manage the increased number of declarations efficiently. While the removal of the exemption and the rollout of the EU Customs Data Hub are part of the same reform efforts, they are not directly dependent on one another. However, implementing the exemption removal without sufficient preparation could lead to administrative bottlenecks and disruptions. The removal of the €150 exemption represents a significant shift in EU customs policy and should be carefully managed to ensure a smooth transition for businesses and customs administrations alike. Additionally, to ensure fair competition, the transition must apply equally to all importers—both e-commerce platforms and individual retailers. A market-based phasing approach, where platforms comply first while retailers follow later, should be avoided, as it would distort competitive conditions and create an uneven playing field. While aimed at promoting fair competition and reducing fraud, its success will depend on its implementation strategy. Stakeholders emphasize that a well-balanced approach is needed to avoid placing excessive administrative burdens on businesses, customs offices, and consumers.

2.2 Introduction of the EU Customs Data Hub

Centralization and Simplification of Customs Entries

The creation of the EU Customs Data Hub is a crucial part of the UCC reform. The goal of this centralized platform is to create a unified interface out of the existing disjointed customs systems of the 27 Member States. Through this platform, traders will be able to submit all required customs information, streamlining the declaration procedure and lowering administrative workloads the centralized system aims to enhance data accuracy, facilitate real-time information interchange, and improve risk assessment skills. [17]

Implications for E-Commerce Businesses and Platforms

The implementation of the EU Customs Data Hub is expected to:

- **Simplify Compliance:** For e-commerce platforms, the shift to a unified customs system may improve compliance transparency. However, the direct benefits should not be overstated, as platforms have not historically participated in customs procedures. While the reform introduces new obligations, it also provides a clearer regulatory framework that could reduce inconsistencies across Member States.
- **Enhance Transparency:** The centralized data repository will provide greater visibility into the supply chains, allowing businesses to track shipments and ensure compliance with EU regulations more effectively.
- **Improve Efficiency:** Automated processes and standardized data requirements are anticipated to expedite clearance times, enabling faster delivery of goods to consumers.
- **Strengthen Security:** Consolidated data will enhance the ability of customs authorities to perform risk assessments, thereby improving the detection of illicit activities and ensuring the safety of products entering the EU market.

A more advanced and connected customs framework is the result of these reforms, which are in line with the EU's larger goals of developing a robust and digital Single Market.

While the EU Customs Data Hub promises efficiency and transparency, it also raises concerns about implementation, compliance costs, and data-sharing obligations.

Benefits for Businesses and Platforms

- Simplified Compliance: A single customs interface will replace multiple national procedures, making it easier for businesses to comply with customs regulations.
- Faster Processing: The standardized digital system is expected to reduce delays, especially for trusted traders who meet compliance standards.
- Greater Visibility: Real-time access to customs data will allow businesses to track shipments more efficiently and ensure regulatory compliance.

Challenges and Concerns Raised by Businesses

- Mandatory Data Sharing and Compliance Costs: E-commerce platforms and logistics providers will be required to provide detailed customs data on all shipments. Industry stakeholders argue that this must be balanced to avoid excessive administrative burdens, particularly for SMEs.
- IT Integration Challenges: Businesses will need to update their systems to be compatible with the EU Customs Data Hub. Stakeholders have stressed the need for gradual implementation and pilot programs to identify potential technical issues before full deployment.
- Cybersecurity and Data Privacy Risks: Companies have raised concerns about the security of business-sensitive data shared with customs authorities. Robust safeguards will be required to prevent misuse or data breaches.

3. Parliamentary and Implementation Updates

The advancement of digital system development and legislative support is critical to the achievement of the planned EU Customs Code amendments. It is clear from recent parliamentary acts and implementation milestones that the Union is prepared to accept the adjustments.

3.1 Parliamentary Developments

On **13 March 2024**, the European Parliament adopted its position on the proposed reforms, marking a significant step toward their implementation. [18] Key highlights of the Parliament's position include:

- **Preliminary Vetting for Trusted Traders**: Businesses with a strong compliance record are expected to benefit from fewer customs checks, incentivizing adherence to EU regulations while easing the administrative burden on customs authorities.
- **Information Sharing Requirements for Platforms**: E-commerce platforms will be obligated to submit detailed information about goods imported into the EU from third countries. This measure is designed to increase transparency and facilitate risk-based inspections.
- **Mandated Use of the EU Customs Data Hub**: To ensure consistency and efficiency, the Parliament endorsed the mandatory adoption of the centralized EU Customs Data Hub by all Member States. This aligns with the goal of replacing fragmented national systems with a unified, digital-first approach.

3.2 Implementation Progress

The **Union Customs Code Annual Progress Report 2023**, published on **9 September 2024**, highlighted both achievements and challenges in implementing the proposed reforms. [19]

Successes in Digital System Development

The development of the EU Customs Data Hub has progressed significantly, with pilot testing conducted in select Member States. Early results indicate that the centralized platform can streamline customs processes, reduce duplication, and improve data accuracy. The digital infrastructure has also been designed with scalability in mind, ensuring it can handle the increasing volume of e-commerce declarations.

Delays in Digital Framework Implementation

Despite these advancements, the report identified delays in integrating the digital framework across all 27 Member States. Variations in technical capabilities, resource allocation, and readiness among Member States have slowed the rollout of key features, such as real-time data sharing and risk assessment tools.

Current Focus on Operationalizing the EU Customs Data Hub

The priority now is to fully operationalize the EU Customs Data Hub. This involves ensuring interoperability with national systems, addressing cybersecurity concerns, and providing training to customs personnel. Policymakers are also working to establish clear timelines for Member States to complete the integration process, with a target of full implementation by 2026. [20]

4. Challenges in Implementation

The proposed reforms to the EU Customs Code are ambitious and transformative, but they also present several implementation challenges that must be addressed to ensure success.

4.1 Feasibility of Removing the €150 Exemption

Potential Strain on Customs Offices

The removal of the €150 customs duty exemption without the implementation of meaningful improvements and simplifications to clearance processes is expected to significantly increase the volume of customs entries processed by customs offices. According to the European Commission, a significant number of small parcels are imported annually into the EU, many of which currently qualify for the exemption. It will require customs offices to handle a dramatic increase in administrative workload, placing strain on resources and personnel, especially in Member States with high e-commerce activity.

Customs authorities in Member States like Germany, France, and the Netherlands, which serve as major entry points for goods into the EU, may face disproportionate challenges. According to Eurostat's statistics on international trade in goods, Germany, the Netherlands, and France are among the largest importers of goods from non-EU countries. Specifically, in 2023, the Netherlands accounted for 18% of the EU's imports, followed by France and Italy, each with 10%. [21] The significant share for the Netherlands is partly due to the substantial volume of goods entering the EU through the Port of Rotterdam, the EU's leading seaport. Without additional resources, these offices risk backlogs and delays that could disrupt trade flows.

Variations in Readiness Across Member States

The capacity to manage the increased workload varies significantly between Member States. Some countries, such as **Belgium** and **Luxembourg**, have invested heavily in digital customs solutions, whereas others with fewer resources may struggle to adapt. [22] [23] This disparity could lead to uneven enforcement and undermine the uniformity of the Single Market.

4.2 Transitional Periods: A Critical Need

Assessment of Regulation Provisions for Capacity Building

The current proposal lacks clear provisions for transitional periods that allow Member States to scale up their customs capacity. Transitional periods are essential for upgrading IT infrastructure, hiring and training personnel, and testing new systems to ensure a smooth transition.

Importance of Phased Implementation

A phased approach to removing the exemption would give customs offices and e-commerce businesses the time they need to adjust. For example, introducing the reform incrementally over two to three years could help Member States address resource gaps and ensure compliance without overwhelming the system.

4.3 Increasing Capacity in Customs Offices

Infrastructure Upgrades

Modernizing infrastructure will be critical for managing the anticipated increase in customs declarations. The EU Customs Data Hub offers a centralized platform to streamline operations, but Member States must invest in local systems to ensure interoperability and support real-time data exchange.

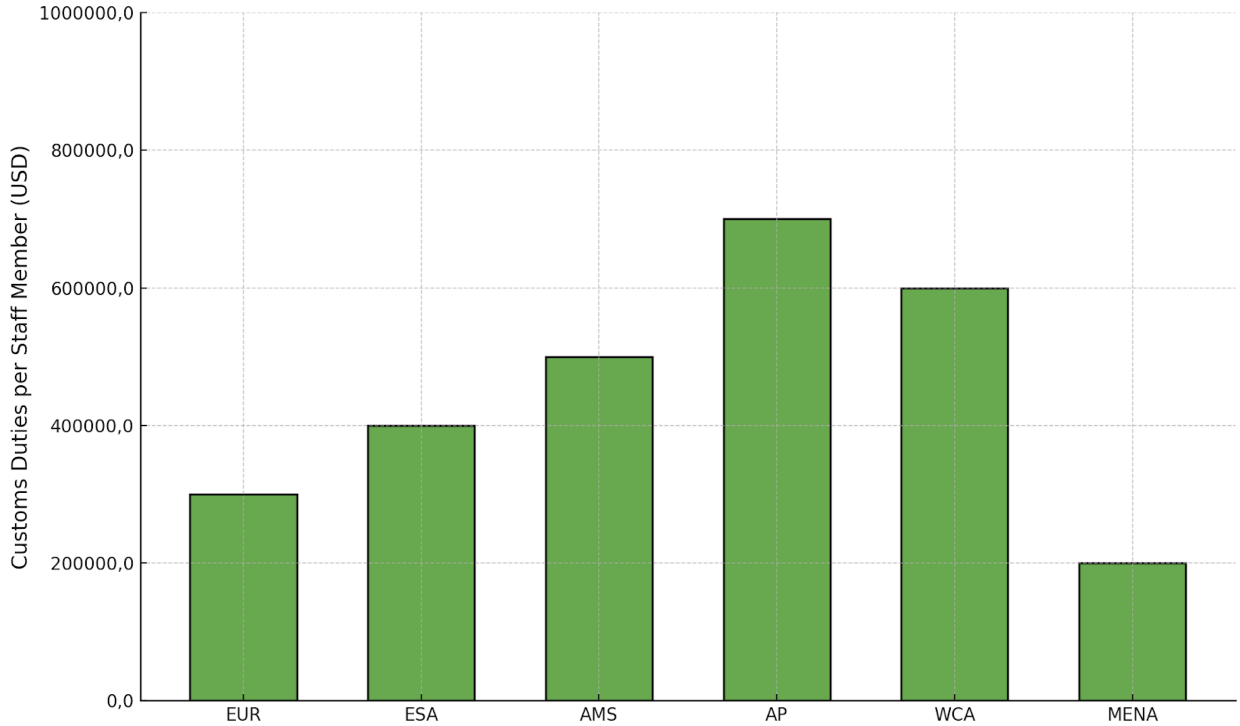

Figure 3: Custom Duties per Staff Member (USD)

Source: World Customs Organization

The chart illustrates the average customs duties collected per staff member across six WCO regions, highlighting significant disparities in efficiency, resource allocation, and technology utilization. Leaving aside the differences in average customs duty applicable among the six blocks, the Asia-Pacific (AP) region demonstrates the highest average collection. This implies a more efficient use of staff as well as a wider use of automation tools and cutting-edge technology to increase data accuracy, accelerate revenue collection, and simplify procedures.

In contrast, the European Union (EUR) reports a much lower average per staff member. This reflects its focus on trade facilitation and openness of the economy (lowest average applicable duty rate on imports). Regions like West and Central Africa (WCA) and East and Southern Africa (ESA) exhibit mid-range averages, likely influenced by the level of average duty rates on imports, variations in trade volume, economic structure, and enforcement capacity. Meanwhile, the Middle East and North Africa (MENA) region records the lowest average which may be attributed to less integrated customs frameworks or lower trade volumes.[24]

Workforce Training and Development

The introduction of new digital tools and the increased complexity of customs operations will require extensive training for customs personnel. Programs focusing on risk assessment, fraud detection, and the use of the EU Customs Data Hub will be vital. Without adequately trained staff, the effectiveness of the reform could be compromised.

A topic of the importance of increased cooperation with market (and other) surveillance authorities concerning product compliance, safety, etc. is missing.

5. Implications of EU Customs Reform for Candidate Countries

The European Union's proposed customs reform will not only affect internal trade but also reshape trade relations with candidate countries and neighbouring economies. As aspiring EU members adjust their regulatory frameworks to align with EU standards, the ongoing modernization of customs rules presents both challenges and opportunities for these countries.

5.1 Alignment with EU Customs Policies

Candidate countries seeking EU accession, such as Ukraine, Moldova, and the Western Balkans, will need to harmonize their customs regulations with the revised Union Customs Code (UCC) to ensure seamless trade with the Single Market. This includes adopting digital customs procedures, integrating with the EU Customs Data Hub, and complying with the revised customs valuation rules. The transition may require significant investments in IT infrastructure, workforce training, and risk assessment systems to match EU customs enforcement capabilities.

5.2 Impacts on Trade Flows and Supply Chains

The elimination of the €150 exemption will require businesses in candidate countries to reassess their export strategies, particularly for low-value shipments destined for the EU. Increased customs controls and mandatory data-sharing requirements may impose new administrative burdens on SMEs exporting to the EU, requiring investment in compliance systems. For Ukrainian and Moldovan agricultural exporters, integrating with the EU Customs Data Hub will be crucial for reducing trade barriers and expediting customs clearance.

5.3 Examples of Candidate Country Adaptation

Several candidate countries have already begun aligning their customs procedures with EU requirements, offering insights into the potential effects of the customs reform.

Ukraine has progressively adapted its customs procedures in line with EU standards as part of its broader integration efforts. The country has made strides in digitalizing customs procedures, yet challenges remain in fully integrating its systems with the EU framework.

Western Balkans: Countries like Serbia and North Macedonia have been gradually aligning their customs procedures with EU requirements, benefiting from reduced trade barriers but also facing compliance costs for digital infrastructure improvements.

Moldova: Moldova's Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU has increased customs cooperation, but modernizing customs technology remains a challenge.

Turkey: As a Customs Union partner, Turkey has implemented various EU-compliant customs procedures, but regulatory misalignment in areas like e-commerce taxation has led to occasional trade frictions.

To ensure a smooth transition, the EU should provide technical assistance, training programs, and phased implementation pathways for candidate countries adapting to the new customs framework. Public-private partnerships can play a role in facilitating the adoption of digital customs tools and ensuring businesses in candidate countries are prepared for compliance obligations. Cooperation between EU customs authorities and candidate country regulators will be crucial to minimizing trade disruptions while supporting economic integration efforts.

6. Policy Recommendations

The proposed reforms to the EU Customs Code present an opportunity to modernize customs processes and level the playing field for all stakeholders. However, careful consideration of practical implementation challenges is essential to avoid unintended consequences that could disrupt e-commerce operations, and consumer experiences, and lead to higher prices increasing inflationary pressure. The following recommendations aim to align the reform's goals with the realities of the e-commerce ecosystem.

6.1 Phased Implementation of Key Reforms

To ensure a smooth transition, it is critical to adopt a phased approach that considers the operational capacities of customs authorities and businesses:

- **Gradual Elimination of the €150 Exemption**: Implement the removal of the exemption in stages, alongside improvements in **data management, IT systems, risk assessment, cooperation, and enforcement.** This will allow businesses and customs offices to adapt incrementally while mitigating potential disruptions.
- **Pilot Programs for the EU Customs Data Hub**: Launch pilot projects with key logistics hubs in Member States such as the Netherlands, Germany, and Poland to refine the system and address technical challenges before full deployment.
- **Pre-Implementation Testing and Regulatory Sandboxes**: **Introduce a regulatory sandbox approach**, allowing businesses and customs authorities to test compliance

mechanisms before full implementation. This would ensure that digital tools, risk assessment systems, and administrative procedures are effective before they become mandatory.

6.2 Supporting Scalability and Efficiency in Customs Operations

As e-commerce volumes continue to grow, customs authorities will need enhanced capabilities to process the increasing flow of declarations efficiently:

- **Adopt Risk-Based Assessment Models**: Encourage customs authorities to prioritize inspections based on **data-driven risk profiling** rather than applying uniform scrutiny to all shipments. This approach reduces bottlenecks and ensures efficient allocation of resources.
- **Streamlined Procedures for Low-Risk Operators**: Develop fast-track processes for compliant traders, e-commerce platforms, and logistics providers, allowing them to benefit from reduced delays and administrative burdens. **This necessitates keeping the AEO in place**, as removing it would disproportionately affect SMEs and established importers.
- **Enhanced Collaboration with Logistics Networks**: Engage with large-scale logistics providers to integrate customs processing into existing supply chain workflows, leveraging their operational expertise to minimize disruptions.
- **Improved Coordination Between Customs and Product Compliance Authorities**: Increase cooperation between customs and market surveillance authorities to enhance product safety enforcement. **This would prevent the entry of unsafe or non-compliant products, particularly in high-risk sectors like electronics, textiles, and toys.**

6.3 Digitalization to Enhance Compliance and Transparency

Digital tools are essential for implementing the reforms effectively while maintaining business continuity:

- **Simplified Interfaces**: Provide businesses with **intuitive digital portals** for submitting customs data, reducing the complexity of compliance for small and medium-sized e-commerce sellers.
- **Pre-Arrival Data Exchange**: Encourage customs authorities to adopt systems that allow businesses to submit shipment data **before goods arrive at borders.** This can expedite clearance and minimize delivery delays, aligning with consumer expectations for fast shipping. **It would also improve risk assessment capabilities and ensure compliance with product safety regulations.**
- **Data-driven Automation for Customs Processing**: Invest in machine-learning algorithms and AI-powered risk assessment tools to facilitate real-time fraud detection and compliance verification.
- **Cybersecurity and Data Protection Measures**: **Ensure that data-sharing requirements are accompanied by strong cybersecurity frameworks** to protect businesses' proprietary information and prevent unauthorized access to trade-sensitive data.

6.4 Incentivizing Compliance Through Public-Private Cooperation

Collaboration between policymakers, customs authorities, and e-commerce platforms is key to ensuring the success of these reforms:

- **Transparency Requirements for Platforms**: Encourage platforms to share shipment data in real-time while ensuring that data-sharing obligations do not impose **disproportionate compliance costs** or administrative burdens, particularly on smaller businesses.
- **Incentives for Early Adopters**: Offer **reduced administrative fees, simplified customs procedures, or priority processing** for companies that comply with the new regulations ahead of mandatory deadlines, incentivizing swift adoption.
- **Stakeholder Consultation Frameworks**: Establish formal channels for ongoing dialogue between policymakers, e-commerce platforms, logistics providers, and customs authorities to **identify and address operational challenges.**
- **Allocate Revenue from Customs Duties to Enhance Enforcement**: Instead of channelling **all** additional revenue from customs duties into the EU general budget, **allocate a portion directly to customs enforcement authorities**. This would support **capacity-building efforts, improved infrastructure, and digital system upgrades** for better enforcement.

7. Conclusion and Next Steps

7.1 Restating Support for the Proposed Reforms

The proposed reforms to the Union Customs Code represent a crucial step towards modernizing customs processes in the European Union. Addressing critical issues such as fraud, undervaluation, and the challenges posed by the explosive growth of e-commerce, will increase the efficiency, transparency, and fairness of EU customs operations. The elimination of the €150 exemption and the introduction of the EU Customs Data Hub are particularly significant measures that promise to level the playing field for businesses while improving compliance and revenue collection.

However, the successful implementation of the reform's hinges on a collaborative approach that acknowledges the operational realities faced by customs authorities businesses, and e-commerce platforms. Addressing key challenges through phased implementation, capacity-building measures, and digital innovation will ensure that the reforms achieve their intended goals without creating undue burdens on stakeholders and cooperation among supervision authorities

7.2 Addressing Feasibility Challenges for Long-Term Success

To realize the full potential of the reforms, policymakers must prioritize the following actions:

- **Investing in Capacity Building**: Ensure that customs authorities across all Member States have the necessary resources, infrastructure, and expertise to handle the increased workload effectively.

- **Encouraging Stakeholder Participation**: Engage traders, e-commerce platforms, logistics providers, and other stakeholders in the reform process to identify practical solutions to operational challenges.

In addition to easing the transition, these actions will solidify the EU's standing as a world leader in digital commerce and customs innovation.

7.3 The Role of the Polish and Danish Presidencies in Shaping Implementation

The Polish (January–June 2025) and Danish (July–December 2025) Presidencies of the Council of the EU will be instrumental in guiding the final legislative discussions and the initial stages of implementation for the Customs Code reform. Both presidencies will need to balance enforcement objectives with the need to facilitate trade and support EU businesses.

- **Polish Presidency (H1 2025): Emphasis on Trade Facilitation and Fair Competition**
  Poland is expected to focus on ensuring customs reforms support economic competitiveness, particularly for SMEs and e-commerce businesses operating within the Single Market. As a key transit hub for EU trade, Poland is also likely to advocate for enhanced customs capacity, risk-based assessments, and enforcement mechanisms that do not disproportionately burden smaller operators. Given its strong ties to Eastern European markets, including Ukraine and other candidate countries, the Polish Presidency may also push for customs policies that facilitate trade relations with these nations while maintaining regulatory integrity. To maximize its impact, the Polish Presidency should seize the opportunity to secure a general approach to the Union Customs Code (UCC) before the end of its term. Achieving this milestone would demonstrate leadership in strengthening the EU's customs framework, ensuring predictability for businesses, and reinforcing Poland's role as a key player in shaping trade policy. Delivering a clear agreement would provide much-needed momentum and stability for the reform process. Successfully reaching this goal would not only fulfill Poland's commitments but also position it as a driving force in modernizing EU customs policy.
- **Danish Presidency (H2 2025): Strengthening Digitalization and Compliance Mechanisms**
  Denmark, known for its advanced customs infrastructure and digital governance, is likely to emphasize the effective implementation of the EU Customs Data Hub and the broader digitalization of customs processes. This includes ensuring cybersecurity in customs data exchange, promoting AI-driven risk assessments, and supporting automation in customs clearance. The Danish Presidency may also advocate for more pilot programs and phased rollouts of key reforms to ensure a practical transition for all stakeholders.

7.4 Next Steps for Research and Stakeholder Engagement

As the implementation of the reforms progresses, further research and engagement will be critical. Key next steps include:

1. **Monitoring Implementation Progress**: Conduct regular assessments of the reforms' impact on customs operations, traders, e-commerce stakeholders, and consumers to identify areas for improvement.

2. **Building Public-Private Partnerships**: Establish dedicated forums for dialogue between policymakers, customs authorities, traders (including SMEs), and e-commerce platforms to foster collaboration and ensure mutual understanding of goals and constraints.
3. **Exploring Future Innovations**: Investigate the potential of emerging technologies, such as blockchain and AI, to further streamline customs processes and enhance compliance in the long term.
4. **Publishing Periodic Reviews**: Share findings and insights through periodic reports to maintain transparency, build trust among stakeholders, and ensure that the reforms remain adaptable to evolving trade dynamics.

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