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## **Modernisation of Customs Code and introduction of electronic customs: Frequently Asked Questions**

(see also [IP/05/1501](#))

### **What is the Customs Code?**

The Customs Code which dates from 1994 is the common legal framework based on common application provisions for the Customs Union. It consolidates all Community customs legislation into a single text and provides a framework for the Community's import and export procedures. The underlying principle is that the procedures should avoid the interruption of trade flows by establishing the right balance between the freedom of trade and the responsibility of traders on the one side and the necessity of control on the other.

### **What is the Customs Union?**

The Customs Union is an essential element of the European Union's Single Market. It is the framework whereby one of the four freedoms of the single market, the free movement of goods, is assured. It has two principal aspects. It means that all customs duties on trade between the Member States are abolished. It also means that all Member States apply a Common Customs Tariff and commercial policy towards third country goods. Before the abolition of controls at frontiers between Member States (1.1.93), free circulation of goods within the Community was not a reality. Despite the absence of customs duties in trade between the Member States, numerous customs border formalities were still in existence. The abolition of all customs checks at internal borders allowed the Customs Union underlying the Community to become apparent to all. Spot checks still occur but routine internal border checks have disappeared.

### **What are "authorised operators" within the meaning of the proposal on the modernised Customs Code?**

Authorised economic operators are compliant and trusted traders subject to audit based controls who would benefit from facilitations in terms of security controls and simplifications for customs procedures. The status of Authorised Economic Operators would also be granted to customs agents, the representatives whom under the Customs Code any person may appoint in his dealings with the customs Authorities to perform the acts and formalities laid down by customs rules.

### **What is the Single Window concept proposed under the modernised Customs Code?**

The 'Single Window' refers to a single electronic entrance point at which authorised operators could submit the information required by customs and other agencies involved in frontier control, such as police, border guards, veterinary and environmental authorities.

## **What is the One Stop Shop concept proposed under the modernised Customs Code?**

The 'One Stop Shop' refers to the combined performance of customs controls and other controls such as veterinary and environmental controls, so that the goods are controlled by all authorities at the same time and at the same place.

## **What would be the benefits of a Single Window and a One Stop Shop?**

Co-operation between the different frontier authorities and electronic data exchange instead of the processing of paper documents would substantially simplify the work of governmental authorities and economic operators.

The latter would save time and money through the consequent reduction of red tape.

From the point of view of the Community and Member States, these innovations would contribute to more efficient risk management, reduced levels of inadvertent non-compliance on the part of traders and better quality of information shared between government agencies, leading to improved security and greater ability to target suspicious consignments, and improved efficiency.

## **Would the Single Window / One Stop Shop be limited to the Community?**

The scope of the modernised Customs Code and the Electronic Customs Decision would, in principle, be limited to the Community. However, interoperability and accessibility of European customs systems with third countries' customs systems and economic operators would be fostered on the basis of international agreements, so as to allow for a seamless flow of data relating to the whole supply chain.

## **What is the meaning of centralised clearance?**

The concept of 'centralised clearance' would mean that when an "authorised operator" lodges his customs declaration at the customs office where he is established, under the Single Window arrangement, that office would then carry out any documentary risk analysis. This office (the 'office of import/export') would then forward the results of its analysis to the border customs office in that Member State or in another Member State where the goods are actually to enter or leave the Community (the 'office of entry/exit'). . This border office would apply any physical controls to the goods being imported or exported that either office deems necessary on the basis of the result of risk analysis. Compliant and trusted traders would generally have a minimal incidence of selection for control at the place of entry or exit.

Provided that there is no irregularity, and that the customs debt was provided for at the office of import, the goods would be released directly into free circulation in the EU or for export.

Under the procedure, the goods would not have to be moved to the office of import or export but could be delivered direct to the point of sale, including in another Member State or third country. This would allow multi-national companies to conduct all of their EU business with one customs office.

## **Would centralised clearance also cover other taxes, such as VAT and excise duties?**

Yes for the main part.

In fact, as far as exports are concerned, the declaration proving exit from the Community is already used as a basis for granting relief from VAT and excise duties (Art. 793 CCIP) and this situation would continue.

With regard to imports, if goods are released for free circulation at the customs office of entry and immediately transported to the Member State where the importer is established, payment of VAT can be suspended in accordance with the 6<sup>th</sup> VAT Directive, so that VAT needs only to be paid in the Member State of consumption and this would continue to be the case.

No such suspension provision exists with regard to excise duties, so excise duties currently do and would continue to have to be paid at the place where the goods are physically released for free circulation (i.e. the customs office of entry). However, when the goods are moved to another Member State, the excise duty paid in the original Member State is refunded, and excise duty is then levied in the Member State of consumption.

**How would the proposals interact with the decision to rationalise customs controls adopted earlier this year ((Regulation 648/2005 - see [IP/05/209](#))?)**

The concept of the 'One Stop Shop' would, like the amendments to the present Customs Code to improve the security and safety of goods crossing Community borders adopted earlier this year, rationalise customs controls. The idea would be that, where controls by more than one authority are considered necessary, then these controls would be carried out at the same time and at the same place. For imports, these controls would need only to be at the border for security, safety and admissibility purposes. For exports, in particular, primary control, and the 'one stop shop', should be at the place where the trader packs and loads the goods for export, with only supplementary risk-based checks subsequently carried out at the office of exit, e.g. for substitution, interference on route etc.

**How would the modernised Customs Code affect the pre-arrival /pre-departure declarations introduced by Regulation 648/2005 (see [IP/05/209](#))?**

The modernised Code would incorporate the amendments to improve the security and safety of goods crossing Community borders adopted earlier this year. Those amendments require traders to provide customs authorities with information on goods prior to their import into or export from the European Union via electronic summary declarations. The proposal for a modernised Code further integrates and consolidates these security-related changes, taking into account the general introduction of electronic declarations, the electronic exchange of data between customs authorities, and the creation of common portals/Single Window.

**What are customs import and export procedures and how would they be reformed under the proposal?**

The proposal on a modernised Customs Code would reduce the existing thirteen different customs approved treatments or uses to just three basic procedures, import, export and special procedures, all with consistent rules, notably for authorisations, guarantees and customs debt. Among the special procedures would be changed would be the customs procedures with economic impact where raw materials or semi-manufactured goods can be processed for import within the Community or re-export by Community manufacturers without a requirement that the manufacturers have to pay customs duty and VAT on the goods being used.

From the point of view of traders, a simpler structure and a maximum of common elements across different arrangements would mean easier access to the rules and less programming efforts for compliance with the customs rules.

From the point of view of customs authorities, the merger or alignment of related procedures means that fewer specialists will be needed to manage them, which will allow for the re-allocation of human resources to risk areas, thus increasing security and reducing the risk of irregularity. Administrations who are in the process of reducing their staff or have done this already will benefit from such an approach.

### **What is the customs guarantee system and how would that be rationalised under the proposal?**

Customs authorities may or shall, according to the case, require traders importing goods to provide a guarantee in order to ensure payment of a customs debt and of other charges, in particular VAT and excise duty. This would apply for example in the case of approved traders who import goods on a daily basis and settle their accounts, say, once a month.

The proposal in the modernised Customs Code would aim to establish a balanced approach between the interests of the trade and the protection of the financial interests of the Community and of the Member States. It would provide for the general possibility of reducing the amount of the guarantee in case of potential debts and the extension of the cases in which the customs debt may be extinguished, while at the same time extending the coverage of the guarantee provided to secure the amount of the customs debt.

### **What changes would the e-customs proposal imply to existing information systems?**

The proposed new customs information systems would, while respecting international norms and standards, take into account as much as possible existing connections between economic operators and customs administrations. One of the objectives would be to limit to the greatest extent possible the needs for adaptations and therefore additional investments. The objective would, in effect, be to make existing business and customs administrations' systems inter-compatible and inter-operable.

### **How interconnected are the customs offices of different Member States at present?**

Customs offices are interconnected today for the purposes of the New Computerised Transit System (NCTS) that is used for the movement of goods between the 25 EU Member States and the EFTA countries (Iceland, Norway, Liechtenstein and Switzerland).

Otherwise, although individual IT applications have been developed by Member States for customs procedures and related activities, these are not inter-connected.

An automated exportation system, "ECS", will be the first project under the eCustoms initiative and at the same time the second customs procedure after NCTS for which a Europe-wide IT-solution will be applicable. Member States support the e-customs strategy as it would provide a solution for data exchange not only between national Customs but also with other national governmental agencies and the Commission.

### **Would existing customs IT systems such as the New Computerised Transit System be compatible with the proposed electronic customs system?**

Yes. One of the objectives is to ensure that all customs IT systems would be able to communicate with one another and exchange the necessary information in order to avoid multiple entry of the same data.

### **Would the proposed electronic customs system be compatible with existing national customs systems?**

This would be one of the main challenges for Electronic Customs. Each national system has its historical background and meets national requirements in terms of compatibility with other national services (statistics, taxations, etc.). One cannot envisage the replacement of all these systems within a short period of time. Therefore the solution would have to be found by providing for standardised messages, which correspond as much as possible to international standards, to be exchanged over the existing secure communication network. The required information would need to be provided/produced by the customs system of one Member State and received by the customs system of another Member State, in accordance with agreed business processes corresponding to required functionalities.

### **Would the proposed new IT system oblige traders to replace their IT systems or modify existing links between customs administrations and traders?**

The approach would be to limit, as much as possible, unavoidable investments by the trading community. This means that the intention would not be to provide for a single standard interface between traders and the customs authorities in the EU, but rather to achieve interoperability by offering multiple technical choices for traders to connect with customs. The creation of the Single Window would enable traders to connect in their most preferred way to the customs authorities. So existing links would not have to be modified, although where business needs exist small adaptations could not be excluded.

As regards the IT systems themselves, the companies would remain entirely free in their choices and would not be limited by customs constraints. The systems would, however, need to have an interface ensuring the link with customs.

In addition, new possibilities of connection would be provided for SMEs such as low-cost solutions using web and other technologies based on ready to use forms via secured internet connection.

### **When would the proposals for a modernised Customs Code and for electronic customs take effect?**

The date of applicability of the new Customs Code would have to take account of the need to replace also the existing Customs Code Implementing Provisions. This would require a period of approximately one year from the time that the final version of the new Customs Code would be adopted. This means that the implementation of these proposals will depend on the time needed for the Council and Parliament to adopt the proposals.

The electronic customs initiative envisages a series of implementation deadlines ending six years following the adoption by the EU's Council of Ministers of the decision and its subsequent publication.

It is envisaged that the implementing provisions and the electronic systems would be in place by 2009.

### **How would the proposals be adopted?**

The two proposals would be adopted by the Council and Parliament under the co-decision procedure, provided for in Article 251 of the EC Treaty.

### **What would be the cost of the proposals?**

The costs might involve an investment of up to 80 to 100 million € per year until 2013 for the Commission and Member States together. The benefits, however, could be as high as 2,500 million € per year once the system is fully operational (at the earliest in 2009). The break even point would be reached in 2010. A better organised customs environment, and therefore lower costs related to customs clearance, would have sufficient impact on economic operators (especially SMEs) to increase their engagement in international trade (import and/or export), e with consequential benefits to the EU and world economy.

### **What has been the involvement of traders and Member States in the development of these proposals?**

Traders have been involved in the decision making process ever since the beginning of the Electronic Customs initiative and modernised Customs Code development. The Trade Contact Group was established in 2002 and all issues relevant to the modernised Customs Code and Electronic Customs have been discussed and debated with the trade in that forum. The proposals have also been discussed with Member States in the relevant Committees and with both Member States and trade in joint seminars and through open consultations and questionnaires on the web. By way of example, four joint trade/ Member States seminars took place on the modernised Customs Code and Electronic Customs in 2005 alone.

The Commission has carefully analysed and discussed the various positions with both traders and the Member States in reaching its final position as now presented. The views of traders on the modernised Customs Code have been somewhat contradictory, as different European associations/federations have different interests, even within the same area of activity.

Regular consultation of traders on this proposal for a modernised customs code and electronic customs will be stepped up over the next few years.

### **What would be the economic effects of these proposals for traders?**

The proposed rules should allow companies established in the Community to face more effectively the customs-related challenges of economic globalisation and increasing trade volume. Delays at the border, caused by complex rules and paper-based procedures, hamper the competitiveness of companies importing raw materials or intermediate products or exporting on the world market.