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Subject: Technical note from the Dutch delegation on the IOSS and customs warehouses - EEA Comments

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1. Summary of the Proposal

The Dutch delegation proposes to introduce a new “IOSS customs warehouse” scheme to apply to goods stored in customs warehouses in the territory of the EU27 before selling the goods to final consumers (B2B2C). The goal is to introduce a new scheme which facilitate the import clearance of goods delivered to the EU27 in bulk and then sold them to final consumers. The final target of the proposal is to move the business scenario from the direct B2C to the B2B2C scenario.

Key elements of the proposal include:

- **Policy Objective:**
 - Address the growing e-commerce parcel flow.
 - Improve enforcement of EU health and safety standards.
 - Encourage bulk shipments over individual parcel shipments to facilitate checks.
- **Proposed Change:**
 - Introduce a new “IOSS customs warehousing scheme” to goods stored in customs warehouses before being sold to consumers (B2B2C model).
 - Align this change with customs reforms abolishing the €150 import duty threshold and introducing a five-tier bucket system for duty calculation.
- **Expected Benefits:**
 - Increased efficiency for customs and market surveillance authorities.
 - Better compliance monitoring through bulk checks.
 - A fairer competitive environment between direct parcel shipments and bulk storage models.

Reservations:

- Possible shift in demand from express airfreight to slower bulk shipping methods.
- Need to adapt to handling warehouse-based order fulfilment.
- Threatens express business model, loss of competitive benefit versus traditional airfreight.
- Missing impact assessment of the proposed changes

2. Analysis from the Express Carriers' Perspective

2.1. Support for Compliance Improvement

Express carriers fully support initiatives aimed at improving compliance with EU regulations, especially regarding consumer safety and fair market competition. The proposal to establish the “IOSS customs warehousing” model to cover goods stored in customs warehouses before selling to the final consumer (B2B2C) aims to enhance compliance by allowing authorities to conduct bulk inspections more effectively. This approach might help prevent unsafe or non-

compliant goods from entering the EU market and streamline customs processes for large-volume shipments.

However, while compliance is critical, it must be balanced with the legitimate operational demands of the express logistics sector, which is foundational to the European economy. Even in the e-commerce area not all transactions are breaking the compliance rules. There must be a “green lane” considered for trusted trader without forcing the channel and full coverage of the proposed “IOSS warehousing” model.

2.2. The Just-in-Time Economy and the Role of Express Carriers

In today’s economy, speed and reliability are paramount. European industries—especially manufacturing, healthcare, and retail—depend heavily on express logistics to ensure the timely delivery of goods, parts, and materials. Any regulatory changes that introduce potential delays or logistical bottlenecks could have significant negative consequences, including:

- **Supply Chain Disruptions:** Industries reliant on fast-moving supply chains could face production slowdowns if components or critical goods are delayed.
- **Customer Expectations:** Some consumers, accustomed to next-day or even same-day delivery, may refrain to other – less compliant – operators.

Key Concern:

Regulating e-commerce through warehousing requirements must consider the criticality of express parcel delivery to the economy, ensuring that it does not disrupt the seamless flow of goods. The proposed B2B2C business model disproportionately affects the express business, which relies on overnight delivery. The implementation of new compliance processes should not undermine or hinder existing streamlined procedures for legitimate trade.

Proposals made on enhancing the safety of the products and their level of fulfilling the European requirements should take into account to enhance the existing tools and the work to be done by the market surveillance and other responsible authorities. Stopping goods already in the EU territory is not efficient and does not take away the need and cost of returning the goods back to their origin or destroying them. Non-compliant products should not be allowed to enter the customs territory of the EU. General solution of the business model of B2B2C without considering the root cause of not well functioning of the current robust frame and considering the partnership with trusted partners will not result in the expected improvement.

A full and detailed impact assessment should be made before the decision is made on the proposed changes.

2.3. The Need for a Clear Definition of E-commerce

The Dutch proposal assumes a narrow definition of e-commerce focused on parcels valued under €150 (B2C). However, in practice, e-commerce is a broad and evolving landscape that includes:

- Direct-to-consumer sales (B2C).
- Business-to-business (B2B).
- Subscription models with frequent low-value shipments.
- Hybrid models (B2B2C).

A **clear and consistent definition** of e-commerce is crucial to avoid confusion and ensure regulatory measures align with real-world logistics practices. Without it, there could be unintended regulatory overlaps, inefficiencies, and compliance challenges that could disproportionately impact express carriers. E-commerce consignments should be clearly identified in order to avoid disproportionate impact. Trusted trader and trusted sellers must be enabled to benefit from facilitations during the import clearance.

2.4. Logistical Impact of the Proposal

The proposal to allow customs warehouses to act as distribution hubs under IOSS introduces potential logistical shifts.

Potential Challenges:

- **Longer Lead Times:** Instead of immediate dispatch upon order placement, goods stored in warehouses may experience processing delays (e.g., picking, packing, and outbound customs clearance).
- **Warehouse Dependency:** A reliance on customs warehouses could create logistical chokepoints, with potential backlogs during peak shopping seasons.
- **Increased Costs:** Additional warehousing, handling, and administrative costs could be passed on to consumers.
- **Reduced sustainability:** Additional truck movements and storage needs will increase the ecological footprint.

Key Consideration:

While bulk warehousing might offer compliance benefits, it should not become a regulatory requirement that undermines the agility of express logistics. A **dual-channel** approach should be maintained, allowing both direct express shipments and bulk warehousing.

The express industry considers that a well-established and well-functioning risk management system of the European Union and/or national customs authorities can lead to target shipments without impacting the whole express volume.

Existing robust legal framework and the network of product safety authorities should be further elaborated.

2.5. Consumer Expectations – Can We Afford Delays?

Critical Question:

Can consumers afford to wait days or weeks for their orders? The answer varies by product type, but for fast-moving goods like fashion, electronics, and pharmaceuticals, delays could significantly impact purchasing behaviour.

Solution:

To mitigate risks, regulatory flexibility should be incorporated, ensuring consumers have the choice of fast express shipments without being forced into slower bulk shipment models.

2.6. Conclusions

Support Compliance but Maintain Flexibility:

Express carriers support efforts to improve compliance but stress that regulatory changes must allow for both direct and warehouse-based models to preserve delivery speed.

1. **Define E-commerce Clearly:**

A precise, comprehensive definition of e-commerce is needed to ensure the proposed measures align with industry realities and avoid unnecessary complexity.

2. **Balance Compliance with Speed:**

Regulations should focus on improving compliance without adding excessive delays to express shipments. Consider an effective risk-based approach to customs checks rather than a blanket requirement for warehousing. Also consider joint risk management with compliant operators.

3. **Dual-Channel Approach:**

Policymakers should ensure that express shipments can continue under simplified customs procedures while allowing bulk imports for those businesses that prefer it.

4. **Consumer Choice:**

Consumers should have the option to select between express and standard delivery methods, with transparent timelines and costs.

5. **Use better existing network of responsible authorities**

It is necessary to consider to use existing robust framework of legislation and responsible authorities and assess how their roles could be more efficient.

By implementing the above mentioned recommendations, the EU can achieve its compliance goals while ensuring that express logistics continue to meet the demands of the modern economy and consumer expectations.

Proposals made on enhancing the safety of the products and their level of fulfilling the European requirements should take into account how to enhance the existing tools and the work done by the market surveillance authorities. Stopping goods already in the EU territory

is not efficient and does not take away the need and cost of returning the goods back or destroying them.

Automated controls, enhanced and improved risk analyses system with appropriate profiling should enable to avoid that non-compliant goods are delivered to the EU.

Trusted partners of the authorities should have access to databases enabling them to enhance their own risk analysis system and possibly block the non-compliant goods outside of the border of the EU.

Dedicated information sources should be established and maintained with information from all stakeholders. Cooperation is inevitable and only with partnership the existing problem may be driven to the right direction.

General damage caused on express as a sector can not be the solution. EU wide coordination and also including the platforms with dedicated responsibility which can be efficiently proven as well must be introduced.

3. Anticipated effectiveness of the Dutch customs proposal

The Dutch customs proposal to introduce the Import One-Stop Shop (IOSS) scheme to goods stored in customs warehouses (B2B2C) aims to enhance compliance and streamline customs procedures by facilitating bulk checks. While it offers potential benefits in terms of efficiency and oversight, **it will not fully resolve key issues such as undervaluation, counterfeit goods, and unfair trade practices.** Here's why:

3.1 Undervaluation Issues Remain Unaddressed

Undervaluation of imported goods is one of the most significant challenges facing customs authorities, particularly in e-commerce. The Dutch proposal does not provide a robust mechanism to tackle undervaluation effectively due to the following reasons:

- **Lack of Direct Price Verification:**
 - The proposal relies on platforms to collect VAT and duties at the point of sale, but it does not introduce new verification methods for declared values.
 - Sellers may continue to misdeclare the value of goods to reduce their tax liability, and customs authorities may not have sufficient resources to challenge every valuation post-factum.
- **Limited Enforcement Capacity at Warehouses:**
 - Even with goods stored in customs warehouses, customs checks will likely remain selective and risk-based, leaving room for underdeclared shipments to enter the market unchecked.
 - Fraudsters may continue to split shipments or manipulate invoices to avoid detection.
- **No Real-Time Transaction Monitoring:**

- Unlike direct shipments, where customs declarations are scrutinized individually, warehousing allows for bulk importation, potentially delaying the discovery of undervalued goods until it's too late.

Conclusion:

Undervaluation will persist as long as fraudulent sellers can misdeclare the value at the time of sale and customs authorities lack proactive, real-time valuation enforcement mechanisms.

3.2. Counterfeit Issues Remain Unaddressed

Counterfeit Goods Still a Major Risk.

Despite the proposal's focus on customs warehouse inspections, it does not adequately address the influx of counterfeit goods, which remains a serious challenge in e-commerce for several reasons:

- **Difficulty in Identifying Counterfeits in Bulk Shipments:**
 - Although bulk inspections offer efficiency, counterfeit items often blend seamlessly into legitimate shipments, making detection challenging without detailed forensic analysis or brand verification.
- **Dependence on Platform Due Diligence:**
 - The proposal assumes that platforms will take full responsibility for ensuring product authenticity before goods reach consumers. However, counterfeiters frequently exploit loopholes in marketplace policies, leading to the continued circulation of fake products.
- **Rapid Product Turnover:**
 - In the fast-paced e-commerce environment, goods are often sold and shipped quickly. Delays in counterfeit detection within warehouses could mean fake goods are already in consumer hands before authorities can act.

Conclusion:

Without stricter pre-import verification, data-sharing between customs and brand owners, and enhanced track-and-trace systems, counterfeit goods will continue to penetrate the EU market.

3.3 Unfair Trade Practices Remain Unaddressed

The proposal does not sufficiently address unfair trade practices such as:

- **Market Distortions Due to Non-Compliant Sellers:**
 - Unscrupulous sellers may continue to exploit the system by undervaluing shipments, falsely declaring goods, or circumventing EU safety standards, gaining an unfair advantage over compliant EU businesses.
- **Complex Supply Chains and Non-EU Sellers:**
 - Many non-EU sellers engage in "dropshipping," where goods are shipped directly from warehouses in third countries, bypassing stricter EU regulations.

Even with a customs warehouse model, regulatory oversight remains challenging when sellers operate from outside the EU.

- **Platform-Based Fraud:**

- The proposal assumes platforms will comply with VAT and customs regulations, but enforcement across thousands of sellers is difficult, and fraudsters often re-register under different identities to evade detection.

Conclusion:

Unfair trade practices will persist unless there is closer cooperation between customs authorities, e-commerce platforms, and regulatory bodies, along with stricter compliance requirements for foreign sellers.

3.4 Logistical Bottlenecks May Erode Compliance Efforts

The proposal's reliance on customs warehouses may inadvertently create logistical bottlenecks, potentially exacerbating compliance challenges:

- **Delays Encourage Misdeclaration:**

- Longer lead times due to warehouse processing may encourage sellers to misdeclare or misclassify goods to expedite clearance.

- **Resource Constraints:**

- Customs authorities may struggle to manage the high volume of goods requiring inspection in warehouses, leading to gaps in enforcement and compliance monitoring.

Conclusion:

Without significant investment in customs infrastructure, automation, and risk-based assessment tools, the proposal could create inefficiencies that limit its effectiveness in tackling fraud.

4. Proposal for More Effective Solutions

To better address undervaluation, counterfeit goods, and unfair trade practices, the following measures should be considered alongside the Dutch proposal:

- 1. Enhanced Data Sharing and AI-Based Risk Profiling:**

- Leverage data analytics to identify suspicious patterns of undervaluation and fraudulent shipments in real-time.

- 2. Stricter Seller Verification Mechanisms:**

- Platforms should be required to conduct thorough due diligence on sellers and provide customs authorities with verified supplier information.

- 3. Blockchain-Based Product Tracking:**

- Implement blockchain solutions to enhance traceability and prevent counterfeit goods from entering the supply chain.
- 4. Randomized Inspections with Stronger Penalties:**
 - Introduce more frequent spot-checks and impose harsher penalties for non-compliance to deter fraudulent activities.
 - 5. Collaboration with Brand Owners:**
 - Partner with industry stakeholders to proactively identify and intercept counterfeit goods before they enter the market.
 - 6. Deployment of the Digital Product Passport (DPP):**
 - Accelerate the use of the DPPs for high-risk products to ensure availability of reliable data for imported goods.
 - 7. Requirement of an EU operator other than Customs Representative :**
 - In case of non-EU established platforms require an EU based operator to be responsible for financial and non-financial obligations.
 - 8. E-commerce not only for the big players:**
 - E-commerce shall support also small businesses. Small businesses might not have the volume/volume forecast to access warehouse offers
 - 9. Country specific controls as results of the proposed model:**
 - UCC Reform drives towards harmonized procedure within the EU. Forcing industries into customs warehousing due to aggressive controls on direct B2C instead of via true legal requirements, may lead to **a non-harmonized, again very country specific behaviour in both industry and authority side**

While the Dutch customs proposal offers a step toward improving compliance by promoting bulk checks through customs warehouses, **it falls short in effectively tackling the deep-rooted issues of undervaluation, counterfeit products, and unfair trade practices.**

To truly resolve these challenges, additional measures such as enhanced data transparency, advanced analytics, stronger cooperation with platforms, and more rigorous enforcement mechanisms are essential. The EU must adopt a holistic approach that balances regulatory efficiency with enforcement capabilities to create a fair and compliant e-commerce ecosystem. The EU might not want to go back to physical checks and rather develop efficient ways to make use of data and experience of express carriers.

5. Recommendations

To maximize its effectiveness, the following steps are recommended:

1. Gradual Implementation:

- Begin with a pilot program in select EU customs warehouses to identify operational challenges before full rollout.

2. Enhanced Digital Infrastructure:

- Ensure the customs data hub is fully capable of handling the transition to data-event-based declarations and monitoring.

3. Stakeholder Engagement:

- Collaborate with e-commerce platforms, logistics providers, and consumer protection bodies to ensure seamless integration and compliance.

4. Clear Compliance Guidelines:

- Develop detailed guidelines for customs warehouses to prevent potential misuse and ensure alignment with EU safety standards.

5. Monitoring and Evaluation:

- Conduct periodic reviews to measure the impact of the change on customs efficiency, consumer satisfaction, and market fairness.

6. Make impact assessment of proposals before making decision on the implementation.

By adopting these measures, the EU can create a more balanced, efficient, and compliant cross-border e-commerce ecosystem.

The European Express Association (EEA) is the representative organisation for the express industry in Europe. The industry specialises in time-definite, reliable transportation services for documents, parcels, and freight. It allows European business to rely on predictable, expeditious delivery of supplies, thereby enabling them to attain and maintain global competitiveness.

The express industry employs over 330,000 people across the EU and supports a further 410,000 indirect jobs in Europe through the supply-chain. The express industry's employees are widely spread across EU member states.

The express industry is a truly intermodal sector. Air-road and air-rail operations form an integral part of the industry's hub and spoke system. Our members use the most efficient transport mode to ensure the timely delivery of our customers' goods. This includes the use of aircraft, but also road vehicles and rail where possible.