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international network of
logistics and infrastructure
in modern commerce

OUR VISION OF INFRASTRUCTURE & LOGISTICS FOR MODERN COMMERCE

22 May 2024

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SUMMARY

European retailers acquiring stock from overseas (predominantly in SE Asia) rely on the services of interconnected supply chain management providers and freight and transport operators for buying in bulk and **paying customs fees and import duties**.

New SE Asian electronic interfaces goods to be purchased directly from manufacturers and brands for direct delivery to the end consumer in the EU and North America. By applying this model, more than **97% of consignments are excluded from import duties** on entry to the EU, as the applicable VAT at the EU member state of consumption (where the consumer is located) has been paid at purchase, and **no customs duty applies** (where the declared value of the goods is less than EUR 150).

By removing the role of intermediaries (e.g., 3PL & 4PLs) and allowing purchase from source, this new “direct commerce” requires **no** fulfilment, **no** B2B transport/customization/warehousing, and just one consolidated transport to the EU. The result is significant lower prices for consumers.

In each case, at entry into the EU, the European customs authorities are at the mercy of the individual EU member state of identification in which the electronic interface has registered its Import One Stop Shop (IOSS) VAT ID number and pays their import duties for all the EU. All the data mandatory for import into the Union is sent in advance to this one customs authority.
The IOSS model is built on the premise that the customs data at individual consignment level can be shared and accessed by any customs authority in any EU member state. However, exchange or common access to the data at individual consignment level at the port of entry (anywhere in the Union, for all of the Union) for the purposes of risk management, document evaluation, and entry inspection remains a challenge because **the necessary interconnectivity and access between the customs authorities in the member states is lacking.**

As a result, where the basic data is not shared between those legally required to access it, **a fiscal level playing field in retail, product safety, consumer protection and sustainability cannot be upheld**.

Retail & ecommerce in the EU: need for fundamental policy decisions

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Platforms in the Far East are redefining digital retail

Over the past 18 months, Chinese ecommerce platforms have pushed through a new business model in cross-border retail. Originating during the pandemic in China, in the quick-commerce business model, platforms connect Chinese end consumers directly with manufacturers and suppliers of everyday products, particularly food, hygiene products and pharmaceuticals, and organize “on-demand” delivery. This “direct ecommerce” model is now being rolled out worldwide, in accordance with the People’s Republic of China’s new strategic trade offensive.

Manufacturer is connected to the consumer via an ecommerce platform

Demand for products is generated through a centralized communication platform. In general, the products offered on the platform are only manufactured once they have been purchased by the consumer in Europe or North America. The more consumers that use the platform, the easier it is to predict which consumers will buy which products. As a result, the new platforms also generate demand, retaining customers by means of games, discounts and other social media tools presented via apps on consumers’ mobile devices. This business model will largely supplant traditional wholesale and retail business models.

End consumer prices in “direct ecommerce” generally 30 – 40% lower

Production only to order, no interim storage, no intermediaries, no wholesalers, and no logistics chains: Instead, once purchased, the goods are produced, packaged in individual consignments, and then collected at central locations overseas where they are consolidated for air freight. Instead of being shipped as cargo loads, every day around 25 - 35 wide-body cargo aircraft fly these goods to Europe (as of March 24) as individual consignments. Even where the platform covers the costs of shipping from the Far East to Europe, the end consumer price remains up to 40% lower than comparable offers on “traditional” ecommerce platforms. German and North American platforms are not yet able to compete.

EU has clear rules that support this business model

The 27 member states of the EU foresaw these developments around a decade ago and adjusted the rules for low-value consignments (max. EUR 150) accordingly. Electronic advance data (EAD) is now mandatory for all B2C consignments containing goods, and this data clearly identifies the supplier, the recipient, and the tax debtor. Where the import VAT is paid by consumers in the EU at the point of purchase (Import-One-Stop-Shop System), the shipment is exempt from import VAT when imported into the EU. Customs duty is only due on goods valued at 150 EUR and above. The new direct ecommerce business model is specifically designed to comply with these framework conditions.

EU member states should have established a data exchange platform by 2021

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The legal and regulatory requirements needed to manage these developments were **unanimously adopted by ALL 27 EU states**. The current problems do not lie in insufficient or flawed regulations, but in a failure by the member states to implement them.

The new IOSS model, like the B2B2C import models before it which allowed consolidated import into all EU member states via a single EU country, are predicated on the ongoing exchange of high-quality data between the member states. However, to date, this is lacking. Ireland, for example, is limited in the data it can exchange with the BeNeLux customs authorities.

The situation is similar in Germany. Customs authorities lack the resources and personnel to analyze the existing data and ensure appropriate risk management when importing up to 7,000 tonnes of consignments per month at individual airports.

Where no advanced data is available, the system is abused

Where the necessary data are not (yet) available or have not been exchanged, import volumes increase, customs authorities are overwhelmed and unable to ensure the necessary controls. The result is misuse in the form of false declarations, poor data quality, and lack of product safety. Hungary offers one example of how things can be done differently. There, customs authorities also demand a **digital proforma invoice** for the rapid, data-supported customs clearance for release of pre-declared B2C consignments valued under EUR 150 for delivery in the EU, and where import VAT has already been paid (Import One-Stop-Shop / IOSS). A standardized e-invoice is easily compiled using the mandatory EAD for the digital customs declaration. As a result, compared to other EU customs borders, the data quality in Hungary is **significantly better** than in Germany or the BeNeLux countries.

The problem does not lie with the legal and regulatory framework as defined by the EU VAT Ecommerce package, but rather by its lack of implementation in individual EU member states. EU consumers recognize the benefits of cross-border retail in direct ecommerce. European retailers will be forced to introduce the same or similar business models. Customs authorities must establish the required digital competencies and resources so that they can use the available data.

Customs and IOSS procedures (simplified import VAT declaration) must be aligned

This new direct ecommerce business model is eliminating merchandise management chains in intermediary trade.

For wholesalers, customs duties and import VAT are payable when importing goods into the EU. In contrast, the direct ecommerce model uses the simplified IOSS procedure for B2C deliveries of goods valued below EUR 150, so that only import VAT (i.e., the VAT of the EU MS to which the B2C consignment is addressed) is due. Even when consolidating B2C consignments for transport (e.g., as air freight from China to the EU), the single consignment character of the B2C delivery remains, rendering these B2C consignments exempt from import VAT at the point of import into the EU when the IOSS system has been used.

No customs duty is charged on individual B2C consignments of low value goods. In contrast, customs duty (in addition to import VAT) is due when commercial goods are imported from third countries for sale in Europe via European retailers. In order to achieve a level playing field, the customs limit should be reduced from EUR 150 to EUR 0 immediately. The necessary digital system requirements exist, but it will need a European Customs Data Platform to implement.

Refinancing: The EU’s single market is highly interesting for investors

In addition to North America and South-East Asia, as a single market the EU is highly interesting for investors. Its levels of personal consumption and digitalization, combined with the relevant legal frameworks, make it a sustainable investment environment.
Compared to other regions, the EU has no market-dominant digital platforms. The growth of digital retail and associated volumes of goods shipments are leading to investments in the necessary infrastructure.

The parties in control of the shipment data for consignments and who shape retail trade to meet the needs of end consumers will use existing business models to bind the associated infrastructure in the EU. Direct and/or covert strategic investments in key EU companies with the necessary infrastructure are to be expected. There is a lack of fundamental political and legal decisions and framework conditions to combat this development.

Next Steps: VAT in the Digital Age & Customs Package

Assuming EU member states adhere to their own laws and regulations, the next steps would be:

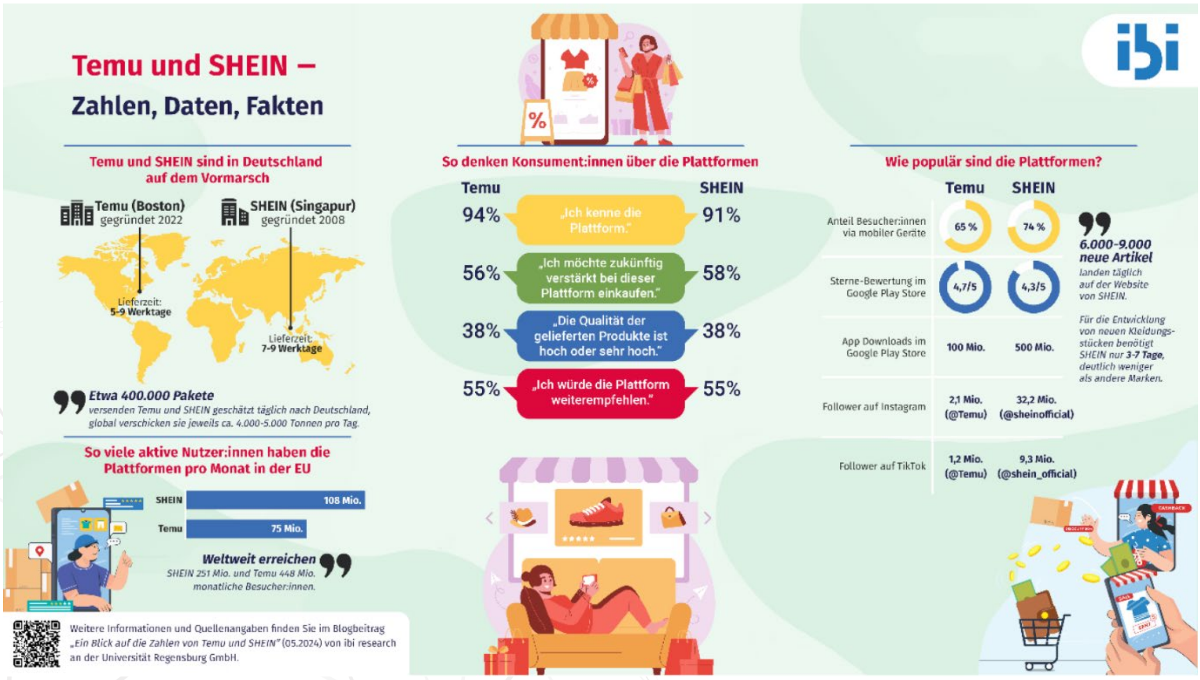
i. Mandatory introduction of import VAT for cross-border B2C consignment of goods valued at less than EUR 150 when purchased via platforms (IOSS system, including mandatory IOSS VAT identifier);
ii. Mandatory advance standardized e-invoice (EN16931), as an integral element of the mandatory dataset for the electronic customs import declaration;
iii. A standardized VAT number, to adapt digital reporting requirements throughout the EU for direct and indirect charges;
iv. Lowering the customs limit for B2C consignments from EUR 150 to EUR 0;

v. Simplification of tax rates in the EU to ensure further simplification of cross-border retail;

vi. Data harmonization of postal/express transport documents;

vii. Digital identification of operators along the entire merchandise management and delivery chain;

viii. Creation of an EU Digital Customs Data Platform, as proposed by the EC, to ensure real-time data exchange on the movement of retail goods in the Union.



Competitive Challenges through S-E Asian digital retail – European Commission is re-adjusting a level playing field approach for European Retail[1]

Rise of Asian online platforms allegedly distort competition within the EU. Overview of what the EU and in particular the European Commission is doing in this respect.

The flood of small overseas e-commerce parcels to the EU single market causes an extremely high and exponentially increasing administrative burden for the Member States Customs authorities. While national authorities are doing their best to assess and supervise these flows to collect taxes and ensure compliance with the internal market product health, safety and environmental standards as well as intellectual property rights, it has become clear that the sheer volumes of e-commerce are testing customs' limits. As the workload of

1 The content of this paper has been based on a response letter of DG TAXUD to the Austrian Retail Association

requesting concerns about the rise of Asian online platforms which distorts competition within the EU and requesting immediate action against this phenomenon.

customs authorities is constantly increasing, and controlling 100% of the traffic is not a realistic option for the EU, risk management is essential to target the right shipments to control and ensure a smooth flow of legitimate trade.

Further, increasingly postal and express consignments sent into the EU (i.e. parcels[2]) containing goods and merchandise pose a series of challenges, related to fiscal aspects, like undervaluation, misclassification and splitting of consignments to make them fit below the EUR 150 import duty exemption[3], but also more and more related to non-fiscal aspects like product compliance (incl. product safety), intellectual property ('IP')/counterfeit, organized crime, forced labour, environmental issues and wastes.

In order to be able to adapt the supervision regarding e-commerce to the changed circumstances, the EU has taken several initiatives, like:

- implementation of the Digital Service Act (DSA)[4], regulating the online intermediaries and platforms such as marketplaces and social networks. Its main goal is to prevent illegal and harmful activities online and the spread of disinformation. It ensures user safety, protects fundamental rights, and creates a fair and open online platform environment;
- implementation of the Digital Markets Act (DMA)[5], to make the markets in the digital sector fairer and more contestable. In order to do so, the DMA establishes a set of clearly defined objective criteria to identify, amongst other, large digital platforms who have to comply to the obligations and prohibitions listed in the DMA;
- the EU has revised its General Products Safety Directive (GPSD)[6] for non-food consumer products which includes more obligations for online platforms. The GPSD defines the EU rules on product safety to ensure that only safe products are sold on the market;
- the EU adopted a Recommendation on measure to combat counterfeiting and enhancing the enforcement of IPR on 19 March 2024 (C(2024) 1739)[7]. See also the factsheet with further figures on counterfeiting and information on the Recommendation[8]. Via this Recommendation of 19 March 2024, COM supports the use of the Memorandum of Understanding on the sale of counterfeit goods on the internet ('MoU on counterfeiting') and the Memorandum of Understanding on online advertising and IP rights ('MoU on advertising').

[2] Definition of PARCEL as used by the cross-border parcel delivery Regulation (EU 2018/644)
[3] EU VAT ecommerce package
[4] REGULATION (EU) 2022/2065 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 19 October 2022 on a Single Market For Digital Services and amending Directive 2000/31/EC (Digital Services Act); https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R2065
[5] REGULATION (EU) 2022/1925 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 September 2022 on contestable and fair markets in the digital sector and amending Directives (EU) 2019/1937 and (EU) 2020/1828 (Digital Markets Act); https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R1925
[6] The General Product Safety Regulation (GPSR) (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2023.135.01.0001.01.ENG&toc=OJ%3AL%3A2023%3A135%3ATOC) is a new key instrument in the EU product safety legal framework, replacing from 13 December 2024 the current General Product Safety Directive (https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32001L0095) and the Food Imitating Product Directive (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31987L0357&qid=1686087793129). It modernises the EU general product safety framework and address the new challenges posed to product safety by the digitalisation of our economies. The GPSR requires that all consumer products on the EU markets are safe and it establishes specific obligations for businesses to ensure it. It applies to non-food products and to all sales channels. The GPSR provides a safety net for products or risks not regulated in other EU legislation. This safety net function means that EU consumers are always protected against dangerous products, be it now or in the future.

7 https://single-market-economy.ec.europa.eu/document/download/0bb46df9-01ed-46bf-963d-fc1042f2f8da_en?filename=C_2024_1739_1_EN_ACT_part1_v6.pdf
8 https://ec.europa.eu/commission/presscorner/detail/en/ip_24_1551

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Customs Reform Proposal: The European institutions are addressing the challenges identified on Union level

It may be noted that part of the challenges faced by customs are structural. Customs operations today are largely based on national systems and data, making it difficult to ensure a consistent and coordinated approach to the implementation of risk management on an EU-wide basis. This challenge is particularly difficult for e-commerce flows where the volumes are very high. The need for a structural reform is recognised, to enable customs to better meet these challenges, among others and to ensure a level playing field for the future. This is why, on 17 May 2023 the Commission put forward proposals for the reform of the EU Customs Union. On 13 March 2024 the European Parliament adopted its position on the customs reform, supporting its main elements. It is now for the Council to adopt its position before both institutions can formally adopt the legislation, with amendments to the text. You can find more information on the customs reform online[9].

The reform abolishes the current threshold whereby goods with a value not exceeding EUR 150 are exempt from customs duty. According to the proposal, the platforms that are registered for IOSS (Import One Stop Shop) will charge duty (i.e. customs fees) and VAT (i.e. import duties following the Member State of Consumption principle) on every single product sold online into the EU at the time of the sale and send this information to the customs authorities. Customs will therefore get the information on the valuation of the goods directly from the seller and not through intermediaries as today, helping to cut down on fraud from the undervaluation of goods entering the EU. At the same time, the removal of the customs duty threshold will discourage sellers from splitting larger consignments into smaller packages to benefit from this exemption. Moreover, according to the proposal, the platforms that are registered for IOSS will be considered as the 'deemed importer' and for that reason they will be responsible for the fiscal and non-fiscal consequences related to the import declarations.

Targeting of unsafe and harmful products delivered by e-commerce would be significantly improved by the proposed introduction of the new EU Customs Data Hub and EU Customs Authority. These new capabilities would enable customs to take a consistent approach to identifying supply chains on a systematic, EU-wide basis for follow-up in co-operation with the relevant (non-customs) authorities.

Proposal: VAT in the Digital Age

The 'VAT in the Digital Age' (VIDA) initiative aims at using new technologies to improve VAT collection, better tackle fraud and ease compliance. On 8 December 2022 the VIDA proposal was adopted by the Commission.
The ViDA proposal includes a number of improvements to the IOSS process, e.g.:
- enables Member States to compare the value of IOSS imported goods with the corresponding VAT declared in the IOSS return;
- Customs authorities will be granted access to IOSS registration data, helping them in the verification process;
- moreover, the proposal provides for the adoption of special measures to prevent forms of tax evasion/avoidance by better securing the correct use and verification of IOSS identification numbers.

You can find more information on the VIDA online[10].

9 https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2643
10 https://taxation-customs.ec.europa.eu/taxation-1/value-added-tax-vat/vat-digital-age_en

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About the logistic-natives e.V.

„The logistic-natives e.V. is an international logistics infrastructure network for modern commerce, whose members are predominantly German SMEs.

As an association, logistic-natives e.V actively represents the economic and legal interests of over 30,000 companies in the industry.
Its primary aim is to empower its members to benefit from increasingly digitalized business processes and to apply digital communications media in delivery workflows for digital commerce to optimize delivery, sustainability, life cycle management, circular logistics and returns management.

As a rich source of practical expertise, the network is the first point of contact for representatives from politics, administration, business and other institutions wishing to create national and international solutions for tomorrow's commerce.

The logistics-natives e.V. sees itself as a cross-sectional association for various branches of industries, making it relevant to all stakeholders involved in commerce."

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