TradeWatch

EY Global Trade

Issue 2 2026

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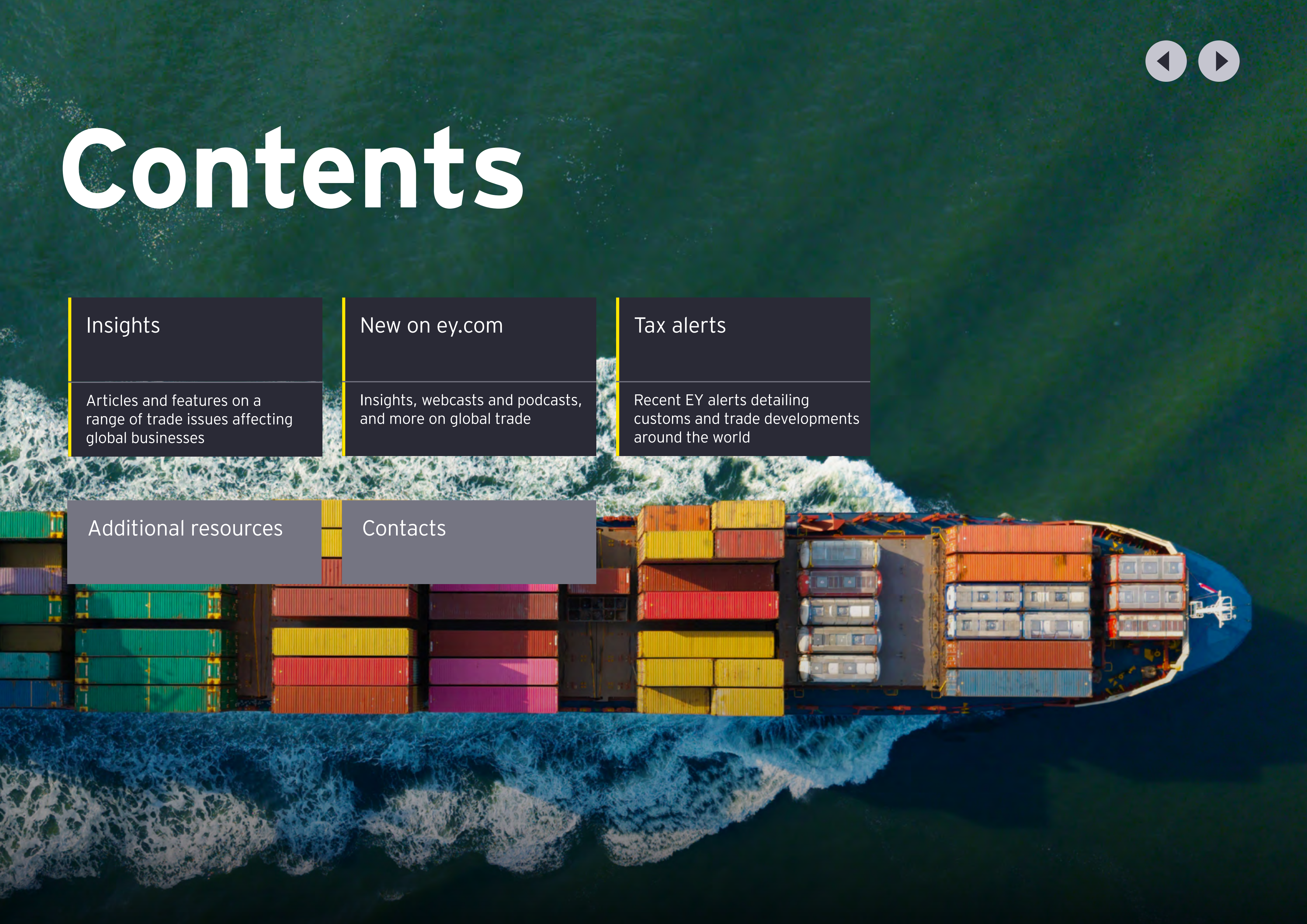

Contents

Insights

Welcome to Issue 2 2026 of *TradeWatch*

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As we move into the second half of 2026, three trends continue to dominate the trade agenda: customs reform, trade disruption and sustainability. Taken together, they are creating a complex trade landscape shaped by ongoing geopolitical conflicts, regulatory transformation and the increasing integration of sustainability and technology into every aspect of trade operations.

In response to these trends, trade functions need to be agile, informed and proactive. But as the pace of change shows no signs of slowing down, it can be hard for functions to manage day-to-day compliance tasks while also playing a more strategic role.

By providing insights and analysis from the EY global network of trade professionals, we aim to help trade leaders understand and anticipate the short- and long-term challenges that international companies face. We can also help these leaders evaluate potential approaches, identify opportunities and make more informed decisions aligned with their business objectives.

Customs reforms underpinned by technology

This issue of *TradeWatch* features a special focus on the upcoming European Union (EU) Union Customs Code (UCC) reform. The reform is particularly topical, as key elements are scheduled to come into effect from October 2026, meaning they are expected to have an immediate impact on businesses operating in the region and influence strategic planning for global operations.

The five articles dedicated to this topic deal with aspects of the detailed measures and provide insights into how companies should respond, including how the reforms have moved from political agreement to practical implementation, how the new **Trust & Check customs supervision program** will work, **how roles and responsibilities will change in the supply chain**, the **need to review customs authorization conditions** and **how the reforms impact e-commerce**.

Fundamentally, the package moves the UCC into the digital age as EU customs authorities move away from relying primarily on transaction-based controls to using data-driven supervision, allowing them to identify risks earlier, improve enforcement and enhance cooperation across the EU.

The trend toward data-driven management by customs authorities can also be seen in the wider global context in **Dawn of the AI-powered customs era** and in specific jurisdictions in **Brazil's Authorized Economic Operator program undergoes changes** and **India's The Eligible Manufacturer Importer (EMI) scheme**.

The implications for companies are clear. As governments rely more on technology to supervise and facilitate trade, companies must also digitize their trade operations.

Trade relationships continue to evolve

Disruption caused by geopolitical events and an increase in protectionist trade policies in recent years have added to the pressures of managing global supply chains. These developments continue to evolve, and they remain high on the trade function agenda. In this issue, we deal with **the ongoing relationship between the United States (US) and the EU** and look at **the EU's new steel import regime**, which is going from temporary safeguards to long-term protection measures. We also look at **how US importers can reduce import values by using the first sale for export rules**.

However, trade disputes and protectionism do not represent the whole picture. New alliances and new or updated trade agreements are also coming into play. These changes represent opportunities to create new supply routes and to diversify operations. In this issue, we discuss new agreements between **India and New Zealand**, between **the Gulf Cooperation Council (GCC) and the United Kingdom (UK)**, and between **the EU and Mexico**. We also consider updated arrangements to facilitate trade in **Brazil** and the **GCC**.

Sustainability reporting

Sustainability is a key priority for governments around the world, resulting in new taxes and regulations aimed at protecting the environment and human health and welfare, such as the UK's plastic tax, the EU Deforestation Regulation (EUDR) and the EU Carbon Border Adjustment Mechanism (CBAM).

Managing and implementing these measures frequently falls to the trade function, as compliance often happens at the border or is based on trade data. Consequently, staff who were once primarily focused on customs duties and border formalities are rapidly becoming responsible for environmental, social and governance (ESG) compliance as well.

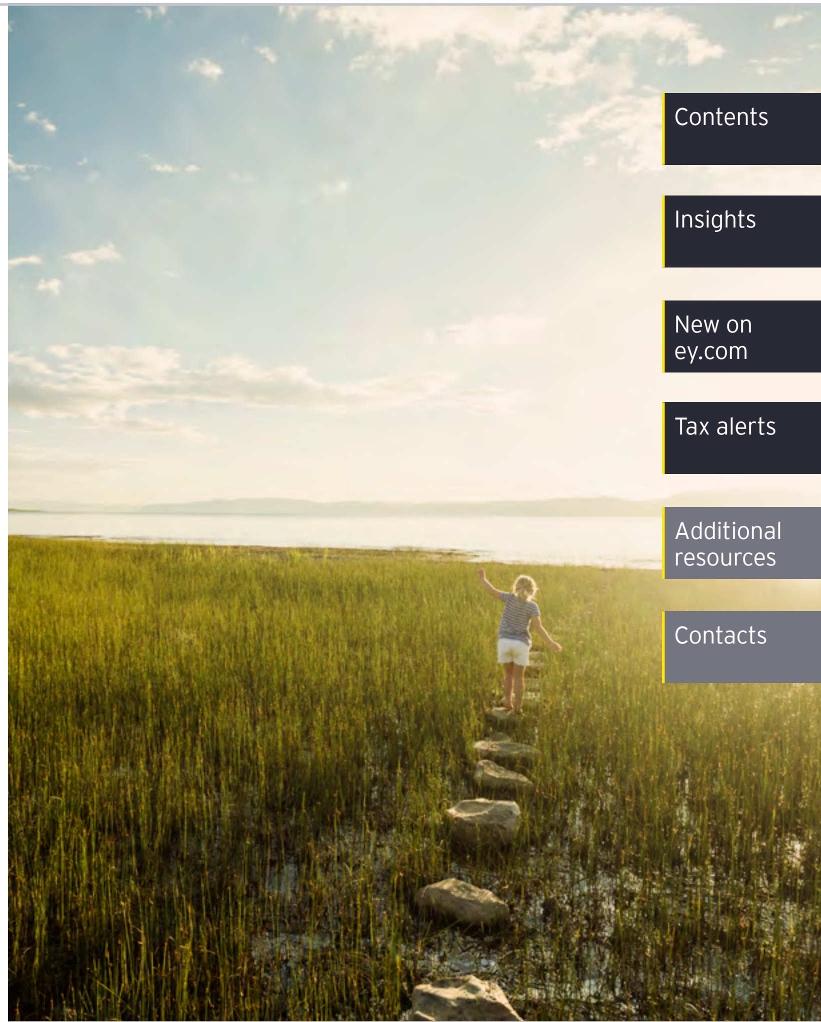
In **Global trade as a sustainability enabler**, we consider the importance of reliable customs data in managing sustainability reporting and suggest the importance of adopting a cross-functional approach to accurate compliance. The theme of creating a wider role for the trade function is also echoed in **"All hands on deck"**, which sets out how building a resilient supply chain requires smarter collaboration between a wide variety of corporate functions.

Keeping up to date with developments in trade

We hope you enjoy this edition of *TradeWatch*. We aim to reflect the key trends affecting international businesses and provide news and insights you can use to inform your trade strategy and improve your trade operations.

You can also keep up to date with developments in global trade by subscribing to EY Tax Alerts and to future editions of our *TradeWatch* and *TradeFlash* publications by visiting ey.com/global trade. You can subscribe to future webcasts and access replays of past webcasts via the EY webcasts page on ey.com.

If you would like more information on any of the topics covered in this issue and how they may impact your business, please reach out to the authors listed with the articles or any of the EY Global Trade professionals listed in the contacts section of the magazine. We also welcome your feedback and suggestions for future editions.



Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

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India and New Zealand sign free trade agreement

Executive summary

On 27 April 2026, India and New Zealand signed a landmark India–New Zealand Free Trade Agreement (IN-NZ FTA or the FTA) at New Delhi, described by the government of India as a "once-in-a-generation agreement" aimed at boosting exports; micro, small and medium enterprises (MSMEs); investment flows; skills mobility; and economic cooperation. While negotiations for an FTA were initially launched in 2010, renewed negotiations commenced in March 2025 and concluded in December 2025.

The IN-NZ FTA is a comprehensive, modern trade agreement covering trade in goods and services, investment facilitation, mobility of professionals and students, customs and trade facilitation, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), intellectual property rights, and institutional cooperation. A defining feature of the agreement is zero-duty market access for 100% of Indian exports to New Zealand from the date of entry into force, while 95% of New Zealand's current exports will be tariff-free or have sharply reduced tariffs. Tariffs will be fully eliminated immediately on day one for more than half of New Zealand's exports and for over 80% once the FTA is fully phased in. The average tariff applied to New Zealand's current exports will decrease to approximately 3%.

This extensive scope reflects the parties' intention to move beyond traditional tariff liberalization and establish a framework supporting deeper economic engagement.

India-New Zealand trade snapshot[1]

Trade between the two countries grew from US$873 million in 2023-24 to US$1.3 billion in 2024-25, an increase of about 49%.

Exports to New Zealand totaled US$711 million in 2024-25, up approximately 32% from the prior year.

Services trade generated US$634 million in 2024, an increase of about 13% over the prior year.

New Zealand is India's second-largest trading partner in Oceania.

Key benefits of the IN-NZ FTA

Enhanced market access

Exports from India to New Zealand

Under the FTA, New Zealand will eliminate customs duties on 100% of its tariff lines, providing immediate zero-duty access to all Indian exports upon entry into force, subject to compliance with applicable product-specific rules of origin.

Pre-FTA tariffs in New Zealand ranged from 0% to 10%; 58% of tariff lines are already tariff-free, with peak 10% duties applied on selected industrial and consumer products. Thus, the average applied tariff of 2.2% in 2025 will be zero once the FTA enters into force.[2]

The removal of these duties is expected to improve the competitiveness of Indian goods in the New Zealand market, supporting supply-chain diversification and contributing to potential downstream benefits for New Zealand consumers through greater product choice and more competitive pricing, particularly for Indian-made electrical goods, machinery, fabrics and textiles.

Key beneficiary sectors for India include:

- Textiles and apparel (garments, fabrics, yarns, carpets)
- Leather and footwear (raw, intermediate and finished goods)
- Engineering goods and auto components, pharmaceuticals and medical devices
- Marine products (including shrimp and processed seafood)
- Chemicals, plastics, electronics, gems and jewelry

Exports from New Zealand to India

The FTA is expected to deliver tariff cost savings for New Zealand exporters, with annual estimated savings of approximately US$43 million initially, increasing to approximately US$62 million upon the full phase-in of the FTA.[3] India has offered tariff liberalization on 70.03% of tariff lines, covering approximately 95% of New Zealand's exports to India by value, while excluding 29.97% of tariff lines to protect sensitive domestic sectors.

The tariff liberalization structure breaks down as follows:

- **~30% of tariff lines**
  - Eliminating duty immediately
  - Including wood, wool, sheep meat, raw hides, etc.

1 Press Information Bureau (Government of India) dated 27 April 2026.
2 Press Information Bureau (Government of India) dated 22 December 2025.
3 New Zealand Trade and Enterprise, "What the NZ India FTA Means for Exporters" (28 April 2026).

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

- **~35.6% of tariff lines**
  - Phasing elimination over three, five, seven and 10 years
  - Including petroleum oils, malt extract, vegetable oils, selected electrical and mechanical machinery, peptones, etc.
- **~4.37% of tariff lines**
  - Reducing tariffs partially
  - Including wine, pharmaceutical drugs, polymers, aluminum, iron and steel articles
- **~0.06% of tariff lines**
  - Applying Tariff Rate Quotas (TRQs) and seasonal tariffs
  - Including Mānuka honey, apples, kiwifruit and albumins (including milk albumin)

Key benefiting sectors in New Zealand

- **Wine:** Tariffs currently as high as 150% will be progressively reduced to 25% or 50% (depending on product value) over a 10 year period, alongside a most favored nation (MFN) commitment that is expected to ensure New Zealand benefits from future tariff concessions that India offers to other FTA partners.[4]
- **Sheep meat:** Removal of the 33% tariff upon the FTA's entry into force is expected to improve New Zealand's competitive position in the Indian market, aligning tariff treatment with that of Australia.
- **Seafood:** Duty-free access will be available for most seafood exports, including mussels and salmon, over a seven-year period.
- **Fruit:** A 50% tariff cut applies to large quotas of apples. Duty-free access applies for kiwifruit within a quota, and tariffs are halved for exports outside the quota. Duty-free access applies for cherries, avocados, persimmons and blueberries over a 10-year period.
- **Mānuka honey:** Tariffs will fall from 66% to 16.5% over five years, representing a notable expansion opportunity.
- **Dairy related products:** Although India retained protections for sensitive dairy sectors, New Zealand albumins (milk protein products) will benefit from a 50% tariff reduction within a quota aligned to average historical trade volumes.
- **Forestry and wood products:** Duty free access will apply immediately to more than 95% of exports, with remaining products transitioning to zero tariffs over seven years.

TRQ implementation and agricultural cooperation: assurance to New Zealand exporters.

Market access for select New Zealand agricultural products (notably Mānuka honey, apples, kiwifruit and albumins) is governed through TRQs combined with minimum import prices, seasonal windows and safeguard mechanisms with monitoring through a Joint Agriculture Productivity Council. These are complemented by an Agricultural Productivity Partnership, including Centers of Excellence and Joint Action Plans focused on productivity, quality enhancement and farmer income protection.

One of the most commercially significant structural features of the TRQ mechanism is that the FTA places the quota administration function primarily in New Zealand's hands. Under the agreed terms of TRQ implementation, New Zealand's competent authority is expected to issue export certificates to eligible New Zealand exporters for TRQ-covered products such as apples, kiwifruit,

4 Ministry of Foreign Affairs & Trade (N.Z.), "Key Outcomes: New Zealand-India Free Trade Agreement."

Mānuka honey and albumins. The corresponding obligation on India's side is clearly defined and limited in scope. The FTA provides that India will issue TRQ authorizations on demand, conditional only on the importer's presentation of a valid export certificate, with no additional requirements, conditions or restrictions.

As a practical matter, this means that an Indian importer identified as the consignee on a New Zealand export certificate should, in principle, receive the in-quota preferential tariff authorization from India on demand and without further procedural impediments. This design converts what might otherwise be a nominal tariff concession into a legally enforceable and commercially reliable entitlement, grounded directly in the treaty text, subject to implementation consistency and administrative practice.

Sensitive sectors protected (India)

India has fully excluded key sensitive sectors from tariff concessions, including:

- Dairy products (milk, cream, whey, yogurt, cheese, butter, caseins)
- Select agricultural products (onions, pulses, sugar, edible oils, spices)
- Animal, vegetable or microbial fats and oils
- Artificial honey
- Arms and ammunition
- Selected metals (aluminum, copper) and specific gems and jewelry lines, and other notified sensitive tariff lines as specified in the final schedules

This calibrated approach defines the scope of preferential market access under the FTA, balancing trade liberalization objectives with domestic policy considerations, while providing businesses operating across India–New Zealand supply chains with greater clarity and certainty when assessing eligibility and compliance requirements.

Economic growth, investment and employment

The FTA is expected to support employment generation and investment-led growth across both economies, with momentum anticipated in labor intensive and manufacturing led sectors. In India, this includes textiles, apparel, leather, footwear, marine products and MSME driven manufacturing clusters, with the potential to create downstream opportunities for integrated India–New Zealand supply chains.

One key feature of the agreement is New Zealand's commitment to facilitate and promote up to US$20 billion in investment into India over a 15-year period, targeting manufacturing, infrastructure, renewable energy, agri-technology, innovation and emerging technologies. The FTA includes a rebalancing clause to address any material shortfall in investment delivery.

The Investment Cooperation and Promotion Chapter supports cross border engagement through structured cooperation activities such as trade delegations, workshops and investment promotion initiatives. As part of these commitments, India will establish a dedicated New Zealand Investment Desk to support New Zealand investors operating in India, assisting across the investment lifecycle and helping to reduce on the ground regulatory and administrative barriers. Collectively, these measures are intended to strengthen investment linked supply chains and support sustained trade and export growth within a facilitative framework.

Services, professional mobility and education

Services market access

New Zealand has extended commitments across 118 services sectors, with MFN treatment in 139 sub-sectors, covering areas such as computer services, professional services, education, financial services, telecommunications, construction, distribution and tourism.

Sectors of interest to New Zealand, in which India has undertaken commitments, include engineering services, environmental services, tertiary and adult education, and audio-visual services. In particular, the health mobility and traditional medicine annex sets up a process for Rongoā Māori practitioners (i.e., providing holistic health services) to engage with the Indian market.

Professional mobility

New Zealand has introduced the Temporary Employment Entry (TEE) visa pathway, enabling up to 5,000 Indian professionals at any given time to work in New Zealand for up to three years, including professionals in information technology (IT), engineering, healthcare, education, construction, AYUSH, yoga, culinary and creative occupations. The Movement of Natural Persons (MNP) annex provides contractual service supplier and intra corporate transferee pathways enabling New Zealand professionals to access the Indian market, subject to agreed eligibility criteria and domestic regulation.

Student mobility

Indian students may work up to 20 hours per week in New Zealand during their studies. Post-study work visas of up to three years are available for Science, Technology, Engineering and Math (STEM) bachelor's and master's graduates, and up to four years for doctoral graduates, subject to domestic immigration laws and procedures of New Zealand.

Working holiday scheme

Each year, 1,000 young Indians may live and work in New Zealand for up to 12 months, promoting youth mobility and skill development.

Regulatory facilitation and non tariff measures

Pharmaceuticals and medical devices

The FTA enables consideration of Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP) inspection reports from comparable regulators (e.g., United States Food and Drug Administration, European Medicines Agency, United Kingdom Medicines and Healthcare products Regulatory Agency, Health Canada), subject to sectoral regulations, with the potential to reduce duplicative inspections and facilitate faster market entry.

Customs and trade facilitation across both jurisdictions

Cargo clearance is expected to be facilitated within defined timeframes, with expedited treatment envisaged for express and perishable consignments (including potential clearance within 24 hours), subject to applicable risk management and documentation requirements.

Authorized Economic Operators (AEOs) are expected to be accorded facilitative benefits, with cooperation/potential mutual recognition envisaged under the FTA.

Automation, digitization and paperless single-window systems (i.e., allowing all required regulatory documents and data for cross-border trade to be submitted through a centralized electronic entry point) are expected to be strengthened and/or further aligned across both New Zealand and India. Advance rulings are expected to be available, or continue to be available, in both jurisdictions.

SPS and TBT chapters

Dedicated chapters in the FTA provide for electronic SPS certification, simplified import permits and fast-tracking of market access applications, balancing trade facilitation with health and safety objectives.

Intellectual property and geographical indications

The FTA strengthens the intellectual property framework between India and New Zealand, including through enhanced protection and recognition of geographical indications (GIs). New Zealand has committed to amending its GI legislation within 18 months of the FTA's entry into force, subject to completion of its domestic legislative process, to allow for the registration of GIs beyond wines and spirits. This is expected to enable the protection of recognized Indian GIs such as Darjeeling tea, Basmati rice and regional handicrafts in the New Zealand market, while providing greater certainty for producers, exporters and importers operating across India–New Zealand supply chains.

Agreement structure

The IN-NZ FTA is a multi-chapter agreement covering, among other things:

- Trade in goods, rules of origin, customs procedures, SPS and TBT
- Trade in services, investment facilitation and movement of natural persons
- Digital trade-related disciplines, intellectual property rights and MSME cooperation
- Agriculture productivity, traditional knowledge, cultural cooperation and institutional mechanisms
- Dispute settlement and final provisions

Implementation note

Tariff concessions and trade facilitation benefits under the India–New Zealand FTA are expected to become operative upon completion of domestic ratification procedures, amendments to applicable laws and issuance of corresponding customs notifications. Businesses should validate tariff staging, product-specific rules of origin, TRQ conditions and services schedules based on the final legal text once formally notified. Early mapping of tariff schedules and origin requirements is recommended.

Future upgrade considerations

FTAs are inherently iterative, with initial commitments establishing a foundation for progressive liberalization. Future upgrades to the IN-NZ FTA will be important to unlock further commercial potential, reflecting the agreement's phased and calibrated approach to market access, together with its built in review mechanisms, which provide a structured pathway for further liberalization over time.

In particular, sectors of strong commercial interest, including dairy and broader agri-food exports, have been subject to more gradual liberalization given their sensitivity in India. Accordingly, future upgrade rounds will likely expand access through mechanisms such as increased quotas, tariff reductions or accelerated phase out timelines, thereby enhancing the practical utilization of existing concessions.

Addressing non tariff barriers, including SPS measures and regulatory approval processes, will be equally important, as these are likely to remain the main factors limiting actual trade flows despite the reduction of tariffs. These areas are therefore likely to form a key focus point in future upgrade negotiations aimed at enhancing the effective operation of the agreement.

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Mexico and the European Union sign the Modernized Global Agreement: what businesses need to know

In May 2026, Mexico and the European Union (EU) signed the Modernized Global Agreement and an Interim Trade Agreement, concluding a negotiation process that began in 2016. This marks the most significant update to the bilateral economic relationship since the EU-Mexico Free Trade Agreement entered into force in 2000.

The new agreement has not yet entered into force. Mexico and the EU must complete their respective internal approval and ratification procedures. On the EU side, the Modernized Global Agreement will require approval by Member States under their national procedures, while the Interim Trade Agreement will follow a separate EU-only process and will apply until the broader agreement enters into force.

This gives businesses a preparation window. Companies with trade, investment or supply chain exposure between Mexico and the EU should use this period to evaluate potential opportunities, operational impacts and readiness requirements before the agreement becomes applicable.

Why the agreement matters now

Modernization comes at a time when global trade is being reshaped by supply chain disruption, geopolitical uncertainty, sustainability requirements and the search for more resilient sourcing models. For Mexico, the agreement supports a broader diversification agenda beyond North America. For the EU, it reinforces commercial engagement with one of its most relevant partners in Latin America.

The agreement is not merely an update of tariff commitments. It reflects the evolution of trade policy toward a more integrated framework covering goods, services, investment, digital trade, government procurement, intellectual property, sustainability and regulatory cooperation.

Key elements of the Modernized Global Agreement

Trade in goods and customs facilitation

The agreement updates the framework for trade in goods and seeks to remove trade barriers, simplify customs procedures and strengthen predictability for companies operating across both markets.

For manufacturers, exporters and importers, this may create opportunities to revisit sourcing decisions, distribution structures and market entry strategies once the new rules become operational.

Rules of origin and supply chain planning

Rules of origin will remain central to the effective use of preferential tariff treatment. Companies will need to determine whether their products qualify under the applicable origin criteria and whether their current sourcing and production models support preference claims.

Businesses should begin mapping bills of materials, supplier locations, production processes and supporting documentation to identify where origin benefits may be available and where operational changes may be required.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Services, investment and digital trade

The modernized framework includes broader commitments on services, investment and digital trade. These areas may be particularly relevant for companies operating in professional services, telecommunications, financial services, mobility, technology and digital business models.

Groups with operations in Mexico and the EU should consider whether the new framework could support investment planning, cross-border services, digital transactions or broader regional expansion strategies.

Sustainability, transparency and responsible business conduct

The agreement includes commitments related to sustainable development, environmental protection, labor rights and responsible business conduct. These provisions reflect the growing importance of sustainability and governance considerations in international trade.

For businesses, this means that market access planning should not focus only on tariff savings. Companies may also need to consider traceability, supplier evidence, governance, reporting and internal controls as part of their broader trade compliance strategy.

What businesses should do before entry into force

- **Review origin qualification opportunities.** Companies should analyze whether current and future products could qualify for preferential treatment under the modernized agreement.
- **Map supply chains.** Businesses should evaluate suppliers, production steps and transformation processes to determine whether origin requirements can be met.
- **Assess customs documentation readiness.** Companies should confirm that origin, valuation, classification and transactional records can be produced in an audit-ready manner.
- **Evaluate sourcing and market access scenarios.** Procurement, logistics and commercial teams should assess whether the agreement could support new sourcing, distribution or pricing considerations.
- **Review services, digital and investment models.** Companies with cross-border services or digital activities should assess whether new commitments may support operational or investment changes.
- **Monitor ratification and implementation steps.** Businesses should follow developments in Mexico and the EU to understand timing, transitional measures and implementation requirements.

Conclusion

The signing of the Modernized Global Agreement represents a new phase in the economic relationship between Mexico and the EU. While the agreement still requires ratification before it enters into force, it provides a clear view of the direction of bilateral trade policy: deeper integration, modernized rules and increased emphasis on data, sustainability and supply chain resilience.

Companies should not wait until the agreement becomes effective to begin their assessment. The ratification period offers an opportunity to identify potential benefits, evaluate operational constraints and build internal readiness. Businesses that prepare early will be better positioned to capture the agreement's benefits once implementation begins. ■

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Back to Welcome

UK-GCC Free Trade Agreement: a landmark deal reshaping trade between a G7 economy and the Gulf region

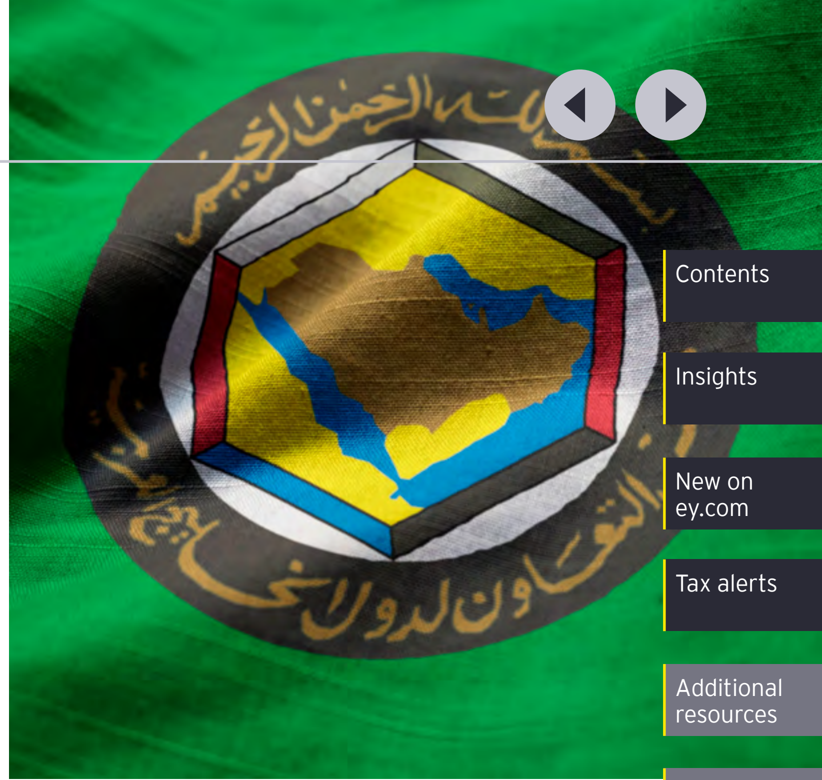
On 20 May 2026, the United Kingdom (UK) and the Gulf Cooperation Council (GCC) – comprising Saudi Arabia, the United Arab Emirates (UAE), Qatar, Kuwait, Bahrain and Oman – concluded negotiations on a comprehensive Free Trade Agreement (FTA). The deal represents the first FTA between any Group of Seven (G7) nation and the GCC as a bloc, marking a significant milestone in modern trade diplomacy.

According to the UK government's independent estimates, the agreement is expected to boost the UK economy by approximately GB£3.7 billion annually and raise real wages by around GB£1.9 billion per year. Bilateral trade between the UK and the GCC currently stands at approximately GB£53 billion; the deal is projected to increase overall trade by up to 19.8%, equivalent to an additional GB£15.5 billion. UK exports alone to the GCC are expected to rise by GB£14.3 billion (22.6%). Importantly, the agreement is projected to eliminate GB£580 million in duties currently paid by UK businesses, with GB£360 million of those eliminated immediately upon the agreement's entry into force.

A first-of-its-kind agreement

The UK-GCC FTA is notable not only for its scale but also for the precedent it sets. While the GCC has previously concluded bloc-level FTAs with Singapore (2008), the European Free Trade Association (EFTA) (2009) and, more recently, an agreement in principle with South Korea (2024), this is the first such agreement with a G7 economy. It positions the UK as a strategic trade partner to the GCC as a unified bloc, complementing commercial relationships that have historically been managed on a bilateral basis.

The agreement extends well beyond traditional tariff reductions – it encompasses services, digital trade, customs facilitation, government procurement, financial data flows, labor rights, environmental sustainability, anti-corruption, animal welfare and women's economic empowerment. These elements reflect the evolving nature of modern trade agreements and signal a deeper, more comprehensive economic relationship between the two blocs.



Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Tariff liberalization and goods market access

The agreement delivers substantial tariff reductions across a wide range of product categories, with benefits flowing in both directions.

GCC commitments

- GCC member states will liberalize 90% of tariff lines to UK goods within 10 years of the agreement's entry into force.
- Of current UK exports to the GCC, 93% will see tariff removal, covering key sectors including aerospace, agri-food, energy, technology and financial services-related goods.

UK commitments

- The UK will liberalize all current GCC exports from the day the agreement enters into force, providing immediate duty-free access for GCC goods entering the UK market.

The combined effect of these tariff reductions is projected to eliminate GB£580 million in duties currently paid by UK businesses, with GB£360 million removed immediately. Priority sectors that will benefit include aerospace, agri-food, energy, technology and advanced manufacturing.

Customs and trade facilitation

In line with the Trade Facilitation Agreement of the World Trade Organization (WTO) and best practices observed in modern trade agreements, the UK-GCC FTA includes ambitious customs facilitation provisions designed to streamline border processes and reduce compliance costs.

- **Customs clearance:** Both parties commit to clearing goods within 48 hours of arrival, significantly reducing supply chain delays and improving predictability for traders.
- **Clearance for perishable goods:** Recognizing the time-sensitivity of certain product categories, a six-hour customs clearance target is established for perishable goods.
- **Self-certification of origin:** The agreement introduces a self-certification of origin mechanism following registration, reducing administrative burdens and enabling exporters to claim preferential tariff treatment more efficiently.

Services, digital trade and investment

The agreement contains significant provisions relating to services, digital trade and financial data flows, reflecting the growing importance of services trade in both the UK and GCC economies.

- The services chapter opens new market access for UK providers in sectors including financial services, professional services and technology.
- The digital trade chapter simplifies and accelerates trade for businesses of all sizes by committing both parties to accept electronic trade documents and promote paperless trading practices.
- Notably, the agreement includes binding commitments on financial data flows, representing a significant development for financial services firms operating across both jurisdictions. This provision is expected to facilitate smoother cross-border operations for banks, insurers and other financial institutions.

Pioneering regulatory provisions

Reflecting the broader trend in modern trade agreements toward embedding regulatory cooperation and governance standards alongside tariff schedules, the UK-GCC FTA includes a number of provisions that go beyond the scope of most existing GCC trade agreements, including:

- **Anti-corruption:** The agreement includes commitments referencing the United Nations Convention against Corruption (UNCAC), integrating anti-corruption standards into the trade framework.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

- **Animal welfare:** For the first time in a GCC trade agreement, provisions relating to animal welfare are included, reflecting international trends in ethical trade practices.
- **Women's economic empowerment:** The agreement contains provisions aimed at supporting women's participation in trade and economic activity, aligning with broader social development objectives in both the UK and the GCC.

Implementation timeline and next steps

Following the conclusion of negotiations on 20 May 2026, the agreement must now proceed through several stages before entering into force.

- **Finalization:** The legal text of the agreement will be finalized and undergo legal scrubbing.
- **Signature:** The agreement will then be formally signed by the UK and all six GCC member states.
- **Ratification:** On the UK side, the agreement will be subject to parliamentary assessment under the Constitutional Reform and Governance Act 2010 (CRAG). On the GCC side, each member state will need to complete its own domestic ratification processes.

Tariff reductions will be phased in according to product-specific schedules, with some tariff lines seeing immediate elimination upon entry into force and others following staged reduction periods over several years.

Implications for business

For multinational businesses with operations or supply chains across the UK and GCC, the agreement presents both immediate approaches and the need for proactive preparation.

- **Assess tariff impact and duty savings:** Companies should evaluate the tariff reduction schedules for their specific product lines to determine how and when savings from the GB£580 million in duty elimination can be realized. Supply chain and sourcing strategies may need reassessment in light of the new preferential terms.
- **Review rules of origin:** Businesses should examine the self-certification of origin criteria to determine whether their goods will qualify for preferential tariff treatment. Where products involve multi-country sourcing or manufacturing, the origin analysis may be particularly important.
- **Prepare for customs changes:** The 48-hour clearance commitment and six-hour perishable goods target will alter operational expectations. Companies should update customs declarations, classification practices and compliance procedures to align with the new requirements.
- **Explore services and digital trade opportunities:** Financial services firms, professional services providers and technology companies should evaluate the new market access provisions to identify opportunities for expanded cross-border operations.
- **Engage with government procurement:** Particularly in the UAE and Bahrain, businesses should assess newly available procurement opportunities under the agreement.
- **Monitor ratification progress:** As ratification processes proceed in the UK and across all six GCC member states, businesses should track developments and engage with trade advisors to confirm readiness for the agreement's entry into force.

The UK-GCC FTA represents one of the most commercially significant and comprehensive trade agreements concluded by either bloc in recent years. Businesses that take early steps to assess the agreement's implications for their operations, supply chains and compliance frameworks will be best positioned to capitalize on the opportunities it presents as it moves toward implementation.

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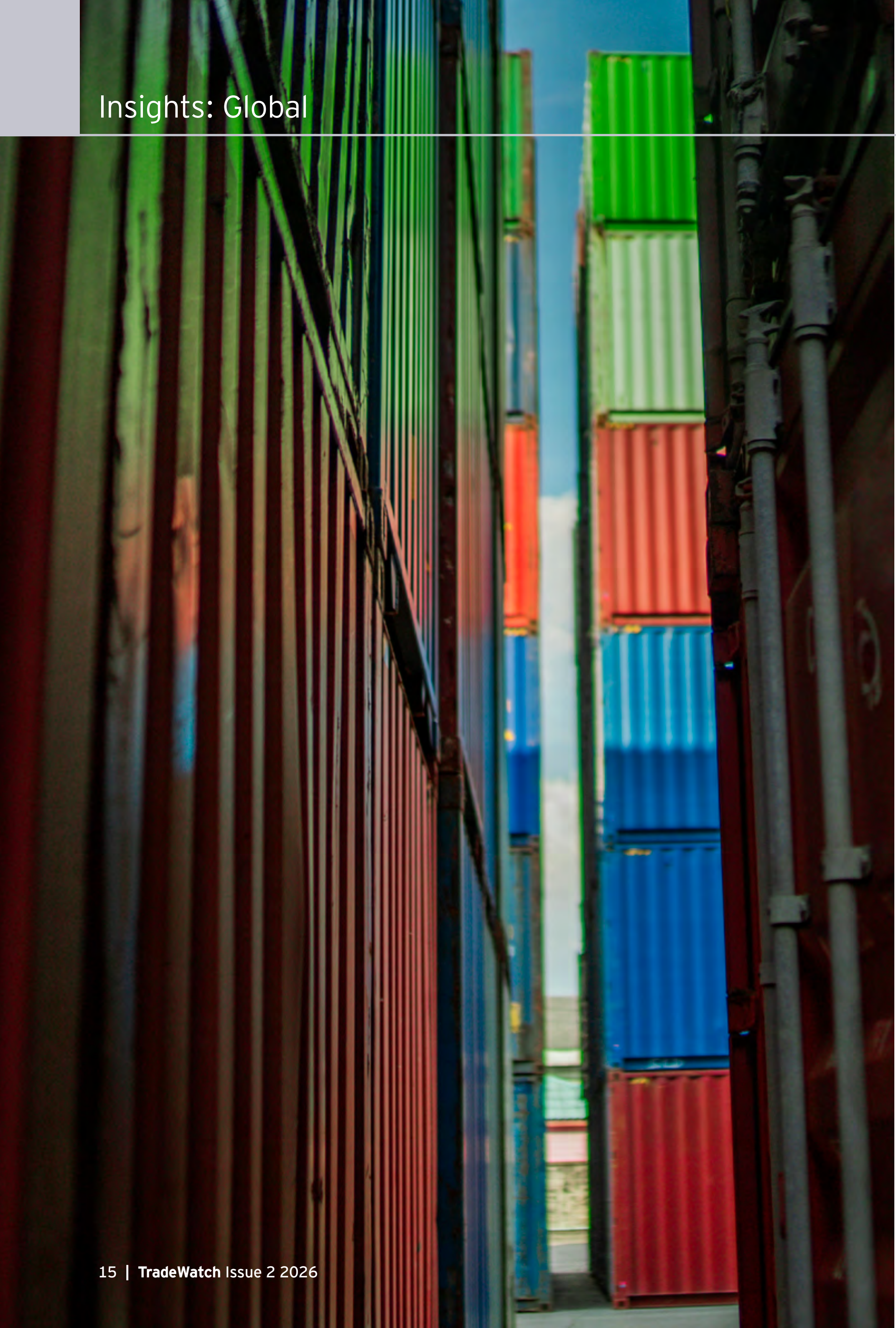
Back to Welcome

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts



All hands on deck: securing supply chains through smarter collaboration

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

In today's increasingly uncertain global trading environment, supply chain resilience can no longer be owned by a single function. It is an organization-wide capability that depends on close coordination among production, procurement, logistics, trade compliance and, increasingly, functions such as indirect tax and master data management. For senior leaders, the objective has shifted materially: it is no longer sufficient to improve individual performance; the priority is to promote alignment across the entire operating model to safeguard continuity of supply.

Recent developments illustrate how quickly established assumptions can unravel. Disruption across key shipping corridors, including the Strait of Hormuz and the Red Sea, has forced carriers to reroute vessels, extend transit times and manage heightened security risks. At the same time, global trade policy has entered a period of sustained volatility, with tariffs rising sharply, new trade measures being introduced at pace, and regulatory regimes becoming more complex.

In this environment, collaboration is not merely advantageous; it is essential for maintaining operational stability.

A structural shift: from efficiency to resilience

Historically, supply chains were designed with efficiency as the overriding principle. Businesses focused on cost achieved this through global sourcing, lean inventories and streamlined logistics networks. These models delivered significant value but relied on relatively stable geopolitical and policy conditions.

That context has changed.

The past 18 months have seen a marked acceleration in protectionist policy, tariff intervention and regulatory reform. Trade policy is no longer predictable or slow-moving; it is dynamic, politically driven and increasingly used as a tool of industrial strategy. Measures such as expanded tariffs across major economies, evolving trade defense instruments and the introduction of carbon-linked mechanisms (e.g., Carbon Border Adjustment Mechanism (CBAM) in the European Union (EU)) demonstrate that cost structures can now shift rapidly and with limited notice.

As a result, resilience has moved from a strategic ambition to a practical necessity. Organizations must now design supply chains that can absorb shocks and adapt in near real time, rather than simply improving for steady-state conditions.

When geography becomes a constraint

Critical trade routes in 2026 highlight how geography itself can become a limiting factor.

Instability in the Middle East [RC10.1][RC10.2]has disrupted normal vessel traffic through the Strait of Hormuz, while ongoing security risks in the Red Sea continue to influence carrier routing decisions. In response, shipping lines have rerouted vessels via longer routes such as the Cape of Good Hope, extending transit times and increasing freight costs.

These adjustments may alleviate immediate risk, but they introduce secondary challenges:

- Increased lead times and inventory gaps
- Higher freight and insurance costs
- Congestion at alternative ports and inland networks

Importantly, these effects are systemic. Disruption in one corridor quickly cascades across global networks, affecting capacity, pricing and reliability. What begins as a logistics issue rapidly becomes a broader commercial and operational concern.

The hidden exposure of single sourcing

These pressures are amplified where organizations rely on single-source or geographically concentrated supplier bases.

Recent tariff developments provide a clear illustration. In 2026, layered and sector-specific tariffs, particularly between major trading economies, continue to reshape sourcing economics. In some sectors, duty rates have increased materially, while overlapping tariff regimes have added complexity to cost modeling and compliance.

At the same time, global production networks are already shifting. Businesses are expanding sourcing footprints across alternative jurisdictions, including the Association of Southeast Asian Nations (ASEAN) and India, as part of broader "China+1" [RC11.1][RC11.2]strategies. However, transitioning supply chains is not straightforward. It requires supplier qualification, technical validation, contractual renegotiation, and, in many cases, regulatory approvals.

This underscores the need for a more balanced approach to sourcing — one that considers resilience alongside cost. Determining that balance requires input from multiple functions, not procurement alone.

Breaking silos: expanding the functional lens

The pace of change in 2026 has exposed the limitations of siloed operating models.

Recent regulatory and policy developments demonstrate the growing interdependence of supply chain functions, particularly in response to:

- New tariff measures and safeguards affecting key commodities
- Evolving customs requirements and classification changes
- Increased use of sanctions and export controls
- Environmental trade measures, including carbon pricing mechanisms

Each of these developments prompts actions across multiple functions:

- Procurement must reassess supplier strategies and contracts

- Logistics must adapt routing and network design
- Trade compliance must interpret evolving regulatory requirements
- Indirect tax must evaluate duty exposure and cash flow implications
- Master data teams must confirm classification and reporting accuracy

In practice, decisions made in one area can have immediate consequences elsewhere. A sourcing choice may alter duty liabilities; a change in routing may trigger different regulatory obligations; poor data quality may result in customs delays or penalties.

Breaking down these silos and adopting integrated decision-making is essential.

Turning collaboration into action

Effective collaboration must be embedded in how decisions are made – not just in organizational structures, but in daily operations.

Leading organizations are focusing on three core enablers:

1 **Integrated planning**	2 **Shared, reliable data**	3 **Clear governance and escalation frameworks**
Cross-functional teams are working together, rather than in isolation, to evaluate sourcing, routing and compliance strategies holistically.	A consistent data foundation – covering classification, origin and product attributes – is critical to enabling informed decision-making across functions.	Defined decision rights and escalation pathways allow organizations to respond quickly during disruption.

When these elements are in place, organizations can assess options in parallel rather than sequentially. For example, in response to a tariff change or route disruption:

- Procurement can evaluate alternative suppliers
- Logistics can validate feasible routes
- Compliance can assess regulatory implication
- Tax can quantify financial exposure

These can all occur within a coordinated, time-bound decision process.

The expanding role of trade leadership

The evolving nature of supply chain risk has significantly broadened the role of trade compliance and trade leadership.

Trade functions are increasingly embedded in strategic decision-making, helping organizations interpret policy changes, assess geopolitical exposure and navigate regulatory complexity.

At the same time:

- Procurement is prioritizing supplier resilience and diversification
- Logistics is building more flexible, adaptive networks
- Indirect tax is playing a greater role in modeling duty and tariff impacts
- Master data is becoming a critical enabler of both compliance and operational continuity

Across all of these areas, the common thread is clear: maintaining supply continuity is a shared responsibility.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Five key takeaways for senior leaders

1	**Resilience depends on cross-functional alignment** Formalize governance structures that bring procurement, logistics, tax, compliance and data teams together in decision-making. Fragmented approaches will not withstand current levels of volatility.
2	**Make tariff volatility a near-term operational priority** Move from periodic reviews to continuous monitoring and scenario modeling. Tariff changes are occurring at pace and can materially affect cost and margin within short timeframes.
3	**Act now on supplier diversification** Where supply chains remain overly concentrated, accelerate "China+1[RC13.1][RC13.2]" and multi-sourcing strategies. Supplier qualification cycles can be long, so early action is critical.
4	**Prepare for imminent regulatory changes** Focus [LR14.1][MS14.2]on time-critical actions over the next three to six months, including updating pricing and fulfillment models for changing customs regimes, preparing for carbon-related reporting and cost implications in the EU, and reviewing exposure to sector-specific tariffs and safeguards.
5	**Invest in data readiness immediately** Confirm that classification, origin and product data are accurate and aligned across systems. Poor data quality is a leading cause of disruption in a highly regulated environment.

Closing perspective

Supply chains are operating in an environment where disruption is the norm.

From geopolitical tensions and constrained trade routes to tariff volatility and regulatory complexity, organizations are facing sustained and interconnected challenges. Recent events reinforce how quickly external shocks can materialize and how broadly their impact can be felt across the enterprise.

In this context, competitive advantage will increasingly depend on the ability to operate as a cohesive, aligned organization. Businesses that foster genuine collaboration across functions – supported by strong governance, shared data and proactive planning – will be better positioned to anticipate disruption, respond effectively and maintain the flow of goods.

Ultimately, it is this collective capability, rather than individual functional excellence, that defines supply chain security in today's environment. ■

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Back to Welcome

Global trade as a sustainability enabler

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Introduction

Sustainability regulations are transforming the role of trade compliance. What was once primarily focused on customs duties and border formalities is rapidly evolving into a critical function for environmental, social and governance (ESG) compliance in addition to the core customs compliance requirements.

New regulations – such as the European Union (EU) Deforestation (EUDR) and the Carbon Border Adjustment Mechanism (CBAM) – are proving challenging for businesses to implement because, like customs compliance, they require data, processes and governance across multiple business functions.

Customs borders are increasingly serving as a key regulatory checkpoint for ESG compliance associated with the movement of goods. There is a strong link between the new ESG requirements and existing customs compliance practices, with ESG requirements drawing on existing customs and product data alongside detailed new sustainability, supply chain, tax, and other regulatory data and system requirements.

Several countries, predominantly led by the EU under the European Green Deal and the "fit for 55" package, are introducing new sustainability regulations, with the CBAM in 2023, the upcoming EU and UK Deforestation Regulation (EUDR, UKDR), Extended Producer Responsibility (EPR) regulation, Packaging and Packaging Waste Regulation (PPWR), and the EU's Corporate Sustainability Reporting Directive (CSRD).

For global trade and customs purposes, market access to third countries is no longer determined only by tariffs and rules of origin, but increasingly by much broader sustainability, compliance and supply-chain risk considerations with existing global trade practices and customs data being used as a foundation for sustainability compliance and system requirements.

Link between sustainability and customs

The underlying mechanism and link to global trade across the sustainability regulations is through using customs data and the customs declaration as a checkpoint for identifying goods in scope of the regulations, including the Harmonized System (HS) commodity code, customs valuation and non-preferential origin.

Balancing the need for accurate customs data while maintaining effective processes and goods movement is more important than ever. It is not only customs authorities that now have extensive oversight of trade data; it is several other sustainability and tax-related authorities separate from the customs authorities that now require detailed customs information.

For example, a steel importer subject to CBAM must combine customs declaration data, supplier emissions information and carbon pricing calculations to meet reporting requirements. Similarly, companies importing products containing, for example, soy, rubber or timber may need to provide due diligence evidence under EUDR before goods can be placed on the EU market.

Like other regulatory areas, the customs declaration is used for restricting goods that do not meet the sustainability requirements at the time of import. Understanding if goods are in scope and introducing risk-based processes well in advance of importing the goods is essential to managing compliance issues, increased costs, reputational damage and goods being stopped at the border, and ultimately damaging customer satisfaction.

Strategic implications

New sustainability requirements can present opportunities to review existing supply chain practices and identify opportunities to improve underlying practices, including reviewing poor data and updating systems. This can result in greater visibility over supply chains and identifying opportunities to improve trade processes, costs and compliance outcomes.

Good data is the foundation across the supply chain, from sourcing raw materials to the product's end-of-life and recycling process, and it is fundamental to preparing for and understanding new opportunities to manage the global trade function as a fundamental value proposition for customers.

Organizations that successfully integrate trade and sustainability processes and data can improve compliance outcomes while reducing administrative burden, increasing supply-chain transparency and supporting broader business objectives.

As with other areas of business data and processes, customs and sustainability processes and data often remain fragmented because of legacy systems, siloed processes and disconnected information.

The opportunity to develop a systemwide approach to customs and sustainability processes, integrated and operating in tandem with all areas of the business, creates opportunities to simplify processes and reduce duplicated customs and sustainability data into integrated sustainability and tax platforms. This can ultimately help businesses remain ahead of the development curve and continue driving sustainable strategic advantage.

In addition, businesses that proactively integrate customs and sustainability data can not only improve regulatory compliance but also unlock broader benefits through improved supply-chain visibility, more efficient reporting processes and enhanced strategic decision-making.

Why now?

The timing is particularly significant because three major trends are converging. First, sustainability regulations such as CBAM and EUDR are moving from policy concepts to operational requirements. Second, many businesses are undertaking enterprise resource planning (ERP), supply chain and digital transformation programs. Third, advances in AI now make it more practical to integrate into existing processes.

Modern sustainability platforms supported by AI such as Microsoft Sustainability Intelligence Platform, SAP Sustainability Footprint Management or specific process AI tools such as the EY Post Entry Audit tool can combine product, customs, tax and supply chain information to identify in-scope products, validate underlying data, automate reporting processes, improve compliance monitoring, and prepare businesses for ongoing trade disruption and volatility. Integrated systems create a single source of truth across trade and sustainability functions and more effectively align with wider business practices to remain fit for the future.

Looking ahead, businesses should expect sustainability-related trade requirements to continue expanding. As regulators increasingly use customs processes to monitor compliance, the importance of accurate trade data and integrated governance frameworks will only increase, especially as the data becomes more accessible to authorities across multiple government agencies.

Next steps

- Confirm that the underlying trade data and product information are up to date and validated, including commodity codes, origin and customs valuation.
- Using the trade data, including the validated commodity codes, map the goods in scope of the sustainability regulations, including EU, UK CBAM, EU Deforestation, and EPR regimes alongside existing and new tariffs, such as the steel tariff quotas.
- Develop a roadmap for implementing the sustainability requirements including aligning stakeholders across the business, including global trade, tax, legal, procurement and sustainability teams.
- Consider enterprise-wide system and data changes as a trigger point to integrate customs and sustainability requirements, including AI functionality.
- Consider the ongoing strategic business implications.

Sustainability regulations are reshaping the role of trade compliance. Customs data is increasingly becoming a foundation on which sustainability regulations rely. Businesses that integrate customs, sustainability and supply chain data into an integrated operating model will be better positioned to manage risk, achieve compliance and identify strategic opportunities as businesses respond to sustainability requirements and as the regulatory landscape continues to evolve.

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

Dawn of the AI-powered customs era

Since early civilization, supply chains have evolved from simple trade routes into complex global networks that support modern commerce.

As goods move across multiple countries and regulatory regimes, the processes needed to manage trade have become increasingly complex. Yet many organizations still rely on manual administrative tasks to move goods across borders. Against this backdrop, artificial intelligence (AI) is emerging as a practical tool to simplify processes, improve data quality and support faster decision-making. Nowhere is this opportunity more apparent than in customs and trade compliance.

Customs: ripe for transformation

Customs is one of the most document-intensive areas of the supply chain. Every day, millions of shipments cross borders supported by customs declarations, invoices, packing lists, certificates of origin and other trade documents. Despite advances in digital trade, much of this information is still reviewed and processed manually through PDFs, spreadsheets and email chains.

These manual processes are subject to several limitations:

- Intensive resource use
- The propensity for delays during periods of increased workload
- The risk of errors that can lead to additional costs

As trade volumes grow and compliance requirements become more demanding, this approach is becoming increasingly difficult to sustain.

While AI can enhance efficiency across the entire supply chain, from procurement and logistics to inventory management and transport, its role within customs is particularly valuable due to the ever-changing nature of the compliance environment. AI offers a clear opportunity to:

- Automate routine tasks
- Extract and validate data
- Identify potential compliance issues before they become problems

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

For customs teams facing growing workloads and expectations, the case for AI adoption is becoming hard to ignore.

The growing challenge of global compliance

Regulatory complexity, not just ambition, is pushing AI adoption. The European Union's (EU's) Import Control System 2 (ICS2), mandatory since January 2026, seeks to identify potentially high-risk shipments before they reach the border, demanding far more advanced cargo data from stakeholders throughout the supply chain. Trade securitization is increasingly evident in the growing web of sanctions and export controls that reflect geopolitical ambitions. Since 2022, the EU, UK and US have steadily furthered sanctions against Russia, extending them to cover dual-use goods (products with both civilian and military applications, such as semiconductors and industrial machinery). This ensures businesses must determine whether products are controlled, screen counterparties against sanctions lists and monitor potential non-compliance risks. A push for greater supply chain sustainability is also a growing part of the compliance burden faced by traders. The expansion of the Carbon Border Adjustment Mechanism (CBAM), for example, requires importers to capture and report emissions data associated with certain goods and, over time, manage the financial implications of carbon-linked import charges.

Together, these measures demonstrate how regulatory requirements are becoming increasingly data-intensive and interconnected, which means that manually tracking and applying overlapping rules across jurisdictions is no longer realistic. Businesses that can't apply a rule change instantly across customs processes are finding themselves at a disadvantage to those that are leveraging AI integration to manage compliance volatility and burden.

How customs authorities are embracing AI

Customs authorities are building AI into their own operations to keep up with additional regulations and trade security. The World Customs Organization's 2024 Smart Customs Survey found that almost half of customs administrations worldwide already use AI or machine learning, with most others planning to. The UK's HM Revenue & Customs (HMRC) illustrates the shift through its Transformation Roadmap, which commits to incorporating AI tools into a modernized Online Trade Tariff, the reference system that businesses use to classify goods and determine duties.

Once regulators run predictive risk models themselves, filing clean-looking paperwork and hoping it clears is no longer sufficient. Government systems increasingly cross-reference filings in ways a human reviewer would miss, raising the bar for what counts as adequate documentation on the business side. The idea of self-auditing a 10% sample of customs declarations will soon be a thing of the past once authorities can conduct a 100% audit of a company's trade data.

From automation to intelligence

In early applications, AI can automate labor-intensive tasks such as cross-checking customs declarations against invoices, packing lists and other supporting documentation. This can help identify inconsistencies more quickly, reduce processing times and minimize administrative errors.

As technology develops, it is likely to take on a more advanced role by analyzing large volumes of customs and trade data to provide informed recommendations. For example, AI may identify opportunities to utilize free trade agreements by assessing product origin and eligibility requirements against the relevant agreement criteria.

By combining automation with data-driven insights, AI has the potential to:

- Streamline customs procedures
- Improve compliance
- Help businesses make better-informed decisions when managing international trade

The resulting data from automated processes allows information from customs documents to be linked with procurement and logistics systems, allowing data to move more easily across the supply chain. This enhanced connectivity provides greater visibility of goods from purchase order to final delivery – a clear benefit when regulatory pressures demand data from throughout the lifecycle of a good.

Changing roles of humans

One of the most common concerns about AI in customs is that it will replace customs professionals. However, trade compliance remains too complex for decisions to be left entirely to technology, requiring a "human in the loop." Regulations continue to evolve, and businesses are still accountable for the decisions they make.

Rather than replacing expertise, AI is likely to change how that expertise is applied. Routine tasks such as document checks, classifications and data analysis can be supported by AI, allowing customs professionals to focus on higher-value activities such as risk management, regulatory interpretation and strategic trade planning. As customs functions become more automated, professionals will increasingly act as advisors and overseers of AI-supported processes.

Business implications

For companies moving goods across borders, this shift has concrete consequences beyond process restructuring.

Cost structure is rebalancing. Less data-entry labor and fewer regulatory penalties are real savings, now offset by fixed costs in platform licensing, integration and governance.

Speed becomes a differentiator. Real-time compliance visibility lets businesses quote more accurate delivery timelines and adapt faster when tariffs shift mid-shipment, a real edge in an industry with fine margins.

The talent mix is shifting. Demand is moving from data-entry clerks toward compliance analysts who can audit AI output; a retraining cost now, with an uncertain long-term headcount picture.

Vendor choice is now strategic. Choosing between an enterprise trade-management platform, an AI-first point tool or a broker-led hybrid shapes how fast a company can respond to new rules and how defensible its compliance posture is under audit.

Governance determines the payoff. The companies extracting the most value are the ones pairing AI with real oversight: validation rules, audit trails and clear limits on what the system can do unchecked.

Closing perspective

The rules are changing faster than most teams can track them manually, and customs authorities are already using AI to check whether businesses are keeping up. As a result, predictive models run by regulators mean sloppy paperwork gets caught, not waved through. AI is how businesses close that gap – not by taking humans out of the loop, but by giving customs professionals the tools to catch problems earlier and spend their time on the decisions that require human judgment and risk assessment.

Customs compliance used to be treated as a necessary friction at the end of the supply chain. However, embedding AI changes the game – from customs being a cost center that is tolerated to an area where scale, speed and accuracy can translate into a competitive advantage for businesses. In customs, the future has arrived sooner than many expected. Those still waiting for it may already be falling behind. ■

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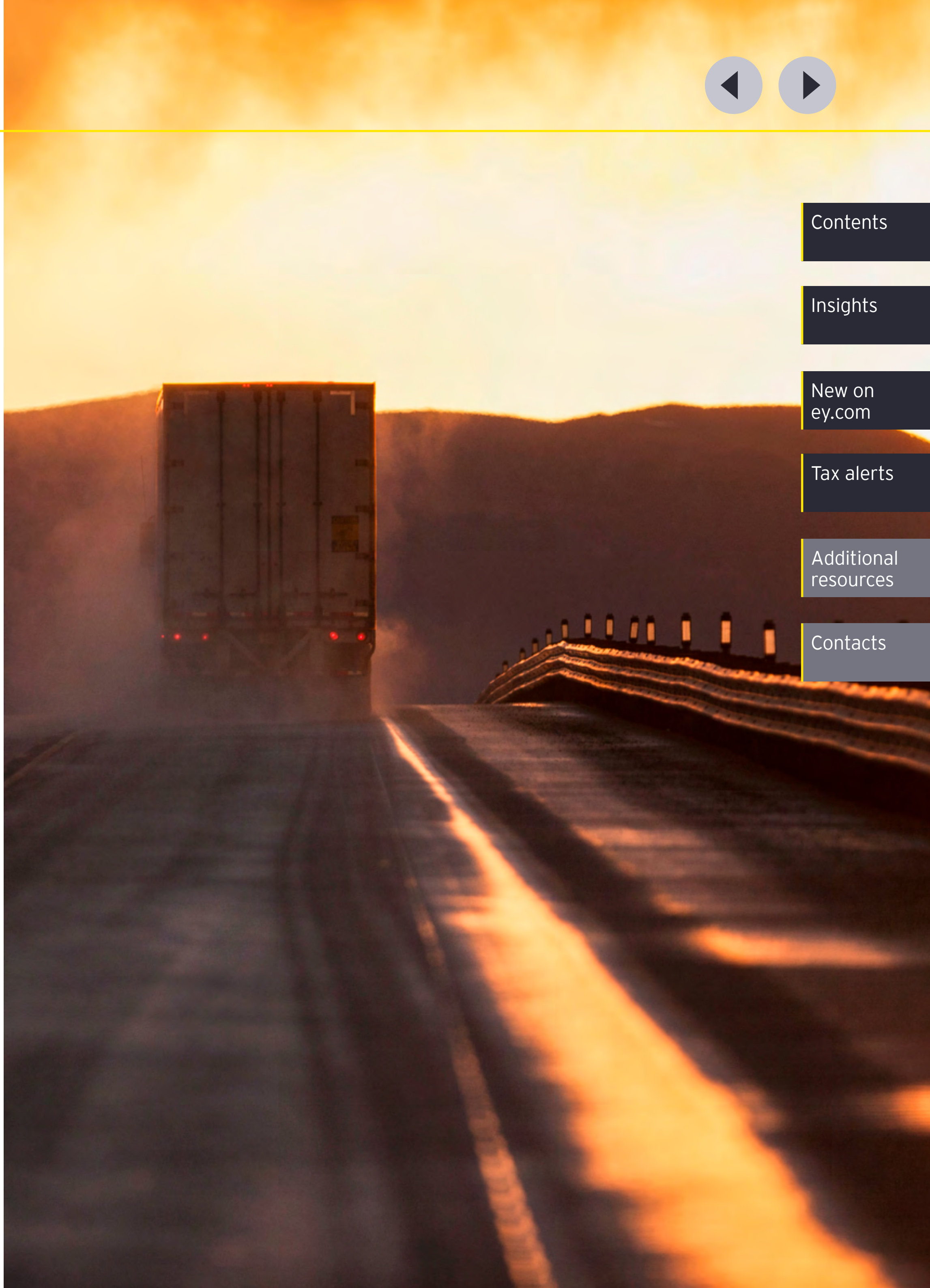
Back to Welcome



Building an audit-ready first sale program

A commentary on recent US Customs and Border Protection (CBP) rulings

CBP's 2020–2026 ruling record gives importers a clear blueprint for what an audit-ready first sale for export program looks like — and how to design one that holds up to scrutiny.

This article is the first in a three-part series on customs valuation. The expansion of US tariff exposure that began in 2025 has materially raised the consequence of every dollar of declared value: structures that were once technical specialties — first sale, related-party pricing, dutiable additions, statutory deductions — now sit at the center of landed-cost economics and CBP audit scrutiny alike. The series turns to each in turn.

Since 2020, US Customs and Border Protection (CBP) has applied long-standing First Sale for Export (FSFE) requirements with significantly more rigor than in the prior decade. CBP now frames the inquiry around the Treasury Decision (T.D.) 96-87 standard — the importer must produce "a complete paper trail of the imported merchandise showing the structure of the entire transaction" — and tests it against the operational record on every entry. Where programs meet that standard, CBP approves at the first-sale price. Where they do not, CBP appraises the merchandise at the importer-level transaction value — the higher next-tier price — eliminating the duty benefit that the importer was seeking. In a smaller subset of cases, CBP looks past the importer's purchase price to a downstream sale to the US customer or, occasionally, to the transaction value of similar merchandise.

To understand what distinguishes an audit-ready program in this environment, we reviewed 25 CBP first-sale rulings issued between 2020 and 2026 — four favorable and 21 adverse. Representative of CBP's current understanding of first sale for export rather than an exhaustive list of every ruling issued in the period, the set captures the structural and documentary elements that separate the programs CBP approves from those it does not. The favorable rulings span product categories (wine, footwear, automotive parts), confirming that FSFE remains broadly available. The adverse rulings, examined together, are diagnostic: they reveal precisely where programs tend to break down.

This article translates that 25-ruling record into a practitioner playbook. It sets out what an audit-ready FSFE program must demonstrate and offers a roadmap for designing, documenting and stress-testing a program that will hold up to CBP scrutiny — grounded in actual ruling outcomes, not theory.

Across the record, the rulings define five elements that an audit-ready FSFE program demonstrates on every entry where first sale is claimed:

1. A bona fide first-tier sale between manufacturer and middleman, supported by genuine transactional evidence.
2. Clear US destination at the time of sale — a necessary element, though never sufficient on its own.
3. Real title and risk transfer between manufacturer and middleman, supported by operational facts that go beyond International Commercial Terms (Incoterms) labels.
4. Complete payment and document reconciliation across the full transaction chain, consistent with T.D 96-87.
5. Arm's-length pricing where the parties are related, anchored to 19 CFR (Code of Federal Regulations) § 152.103(l).

What follows is a "do's and don'ts" roadmap for designing and auditing a program that meets each of these elements.

The do's

Build the entry packet before the entry. In a defensible program, the manufacturer–middleman purchase order and invoice, payment record, transport document, packing list, bill of lading, cargo insurance and proof of US destination are assembled at the time of import — not retrieved when CBP asks. HQ H338211[1] is an instructive counterpoint: CBP noted that it "has not been presented with a complete paper trail," and the program failed on that ground alone.

Invest in middleman substance. The footwear approval in HQ H331224[2] shows what works: a middleman whose role is adequately explained, whose operational pattern of payments and orders is reasonable, and whose relationship to the other parties does not look like agency. An audit-ready middleman earns a margin, bears commercial risk, exercises pricing authority and has its function documented operationally — not just contractually.

Demonstrate the middleman's commercial autonomy. CBP looks for evidence that the middleman is a real principal — not a function of the importer or the manufacturer. HQ H310403[3] flagged that the middleman's "lack of freedom to choose a vendor or choose a factory" undermined its independence. HQ H322425[4] similarly noted that the importer had not shown the middleman "could sell the merchandise to any other party or at another price, or that [the middleman] had any dealings with any other buyers or initiated transactions on its own behalf." The 2026 approval in HQ H349649[5] shows the affirmative pattern. A strong file documents the middleman's vendor selection authority, pricing discretion, customer relationships and ability to transact with parties outside the importer's chain.

Operationalize the separation between related parties. When a single individual sits on both sides of the manufacturer–middleman relationship, CBP reads that as agency. HQ H326891[6] is the cautionary example: the manager and part-

1 **H338211**: Application for Further Review of Protest No. 5501-23-106984; Transaction Value; First Sale, Ruling Date: 28 August 2024.

2 **H331224**: Internal advice; Footwear; Related Parties; Appraisement, Ruling Date: 5 March 2024.

3 **H310403**: Application for Further Review of Protest No. 2704-20-117509; "First sale" valuation, Ruling Date: 23 September 2020.

4 **H322425**: Protest and Application for Further Review of Protest No. 3901-21-124553; 19 U.S.C. § 1401a; First Sale; Multi-Tiered Transaction, Ruling Date: 15 Augustus 2025.

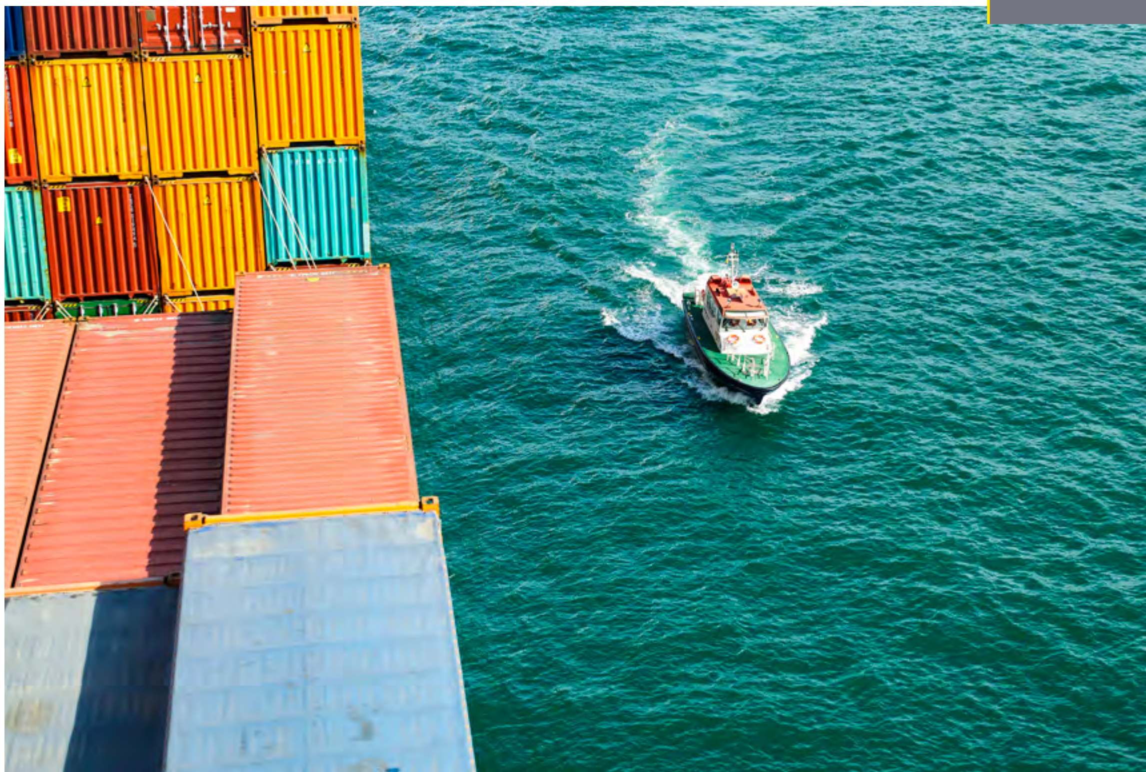
5 **H349649**: "First sale" appraisement; imported automotive parts, Ruling Date: 11 May 2026.

6 **H326891**: Application for Further Review of Protest No. 130322103681; Green Food Ingredients LLC; "First Sale" Appraisement; Multi-Tiered Transaction, Ruling Date: 29 May 2024.

owner of both the foreign related manufacturer and the US related middleman/importer was the same individual who also signed the importer's invoices to its downstream US customer. In an audit-ready program, signers, decision-makers, contract owners and bank-account control are distinct across related entities, with documentation showing the middleman makes its own commercial calls.

Document title and risk transfer with operational evidence. Contract clauses and Incoterms are starting points; CBP looks beyond them. HQ H316892[7] framed the test directly: "in the absence of a passage of title and risk of loss to the middleman, there was no bona fide first sale." The 2026 approval in HQ H349649[8] shows what works – CBP relied on multiple corroborating sources to confirm the middleman's title and risk: the Supply Agreement's express title-transfer language, the Cargo Transportation Agreement holding the inland carrier liable to the manufacturer for damage in transit, the middleman's contractual inspection and rejection rights, its payment obligation and marine cargo insurance issued in the middleman's name. A strong file ties Incoterms choices to insurance policies, claims history, discrepancy resolution records and consistent treatment across purchase orders, invoices, logistics and payment documents.

Anchor related-party arm's-length proof to the regulatory text. Per 19 CFR § 152.103(l), the importer may establish that the relationship did not influence the price through the circumstances-of-sale test – by showing, for example, that pricing is consistent with industry practice, with the seller's prices to unrelated buyers, or with a price adequate to recover all costs plus a profit equivalent to the firm's overall profit on the same class or kind – or alternatively, through the test-values comparison. When the first-tier sale is between related parties, a careful, customs-specific application of one of these tests is critical to demonstrate the relationship did not influence the price. One of the most instructive sources of guidance is Ruling HQ H283094[9] – a single-tier related-party transaction rather than multi-tier FSFE but governed by the same § 152.103(l) framework. There, CBP accepted a consistent "cost+%" pricing policy as one workable approach, supported by gross-margin attestations tied to merchandise of the same class or kind. Other relevant customs valuation rulings also show that a properly structured transfer-pricing framework can support post-importation adjustments to transaction value via the Reconciliation program: in HQ W548314[10], HQ H310087[11] and HQ H340157[12], CBP accepted TP-policy-based adjustments where the importer satisfied the five-criteria test of HQ W548314 plus the circumstances of sale (COS) or test-values requirement. The doctrine translates to FSFE: whichever path is chosen, the proof must be merchandise-specific, documented over a representative period and grounded in benchmarks tied to the actual imported goods. Customs-specific support – not the income tax transfer-pricing report as-is – is the right product.



7 **H316892**: Internal Advice Request; Transaction Value; Multi-Tiered Transaction, Ruling Date: 20 July 2022.

8 **H349649**: "First sale" appraisement; imported automotive parts, Ruling Date: 11 May 2026.

9 **H283094**: Application for Further Review of Protest No. 0712-17-100230; Valuation of Apparel; Bona Fide Sale, Ruling Date: 15 August 2023.

10 **W548314**: Transaction Value; Formulas; Post-Importation Adjustments; Revocation of HRL 547654, Ruling Date: 16 May 2012.

11 **H310087**: Application for Further Review of Protest Number 1303-19-100276; Transaction Value; Related Parties; Post-Importation Adjustments, Ruling Date: 18 March 2022.

12 **H340157**: Internal Advice; Protest No. 1601-24-107165; Transaction Value; Related Party Transactions; Post-Importation Adjustments, Ruling Date: 14 October 2024.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Build the file in English, in full and end to end. HQ H326891[13] is instructive on missing documents — CBP denied first sale in part because the importer/middleman failed to provide purchase orders, specific proof of payment, or contracts between itself and the related foreign manufacturer. HQ H332358[14] and HQ H337689[15] extend the point to translation: CBP found documents submitted by the importer were "either only partially translated, were incoherent, or did not identify the proper parties." When the first-tier sale documents are missing, incomplete or unreadable, no other support can fill the gap. Translate foreign-language documents in full. Reconcile payment flows from manufacturer to middleman to importer with no unexplained gaps. The strongest programs are the ones a non-specialist auditor can follow on first read.

The don'ts

Don't treat FSFE as a one-time legal opinion. A favorable legal memo at the design phase does not survive audit unless every entry's documentation aligns with the program design. FSFE is an operational program, not a legal artifact.

Don't rely on US destination evidence to do work it cannot do. It is a necessary element, not a sufficient one. HQ H322425[16] and HQ H323585[17] both denied first sale despite documents indicating US destination, on the basis that the importer had not provided a complete paper trail describing the roles of the parties or sufficient detail to show the related-party price was uninfluenced by the relationship.

Don't ship through an intermediate country without proving US destination at first sale. When goods are shipped from the country of origin to an intermediate country before reaching the US, CBP applies a presumption that the original sale was not for export to the United States. HQ H309127[18] found that the proposed transaction "fails to overcome the presumption" and that the merchandise was not clearly destined for the US at the first-tier sale. Overcoming that presumption requires concrete evidence — purchase orders identifying the US as destination, marking and labeling specific to US requirements, customer specifications drawn from US retailers and consistent treatment from first sale through importation.

Don't offer your income tax transfer-pricing report as your customs related-party support. They are different documentation products built to different standards. Income tax transfer pricing (TP) reports benchmark the overall related-party margin against functionally equivalent industry comparables under IRC § 482; customs valuation under 19 CFR § 152.103(l) requires either circumstances-of-sale evidence (often with "same class or kind" benchmarks for the specific imported merchandise) or test values tied to identical or similar goods sold to unrelated US buyers. In HQ H303474, CBP held that a Big Four transfer-pricing study using industry return on investment (ROI) benchmarks was "not sufficient to establish that a related party transaction value is acceptable." HQ H332358 and HQ H337689 make the same-class-or-kind specificity point: CBP rejected entity-level profit and loss data because it tracked the importer's overall sales rather than "sales of merchandise of the same class or kind as the imported merchandise." The point is not that transfer-pricing work is irrelevant. Properly conformed TP frameworks meeting the five-criteria standard of HQ W548314[19] (written policy taking IRC § 482 into account, used in tax filings, product-specific, supported by accounting detail and free of other conditions affecting acceptance) plus the COS or test-values requirement have been accepted — including in HQ H310087[20] (2022) and HQ H340157[21] (2024). The caution is against submitting an off-the-shelf tax-purpose study to CBP as the customs deliverable. If TP work is going to underpin the customs

13 **H326891**: Application for Further Review of Protest No. 130322103681; Green Food Ingredients LLC; "First Sale" Appraisement; Multi-Tiered Transaction, Ruling Date: 29 May 2024.

14 **H332358**: Application for Further Review of Protest No. 4601-23-134023; Dreamwear Inc.; First Sale Valuation, Ruling Date: 4 June 2025.

15 **H337689**: Application for Further Review of Protest No. 2704-23-164798; Dreamwear Inc.; First Sale Valuation; Transaction Value, Ruling Date: 6 October 2025.

16 **H322425**: Protest and Application for Further Review of Protest No. 3901-21-124553; 19 U.S.C. § 1401a; First Sale; Multi-Tiered Transaction, Ruling Date: 15 August 2025.

17 **H323585**: Internal Advice; First Sale Valuation and Related Party Pricing, Ruling Date: 31 August 2022.

18 **H309127**: First sale; dutiability of royalty payments; educational materials, Ruling Date: 3 August 2020.

19 **W548314**: Transaction Value; Formulas; Post-Importation Adjustments; Revocation of HRL 547654, Ruling Date: 16 May 2012.

20 **H310087**: Application for Further Review of Protest Number 1303-19-100276; Transaction Value; Related Parties; Post-Importation Adjustments, Ruling Date: 18 March 2022.

21 **H340157**: Internal Advice; Protest No. 1601-24-107165; Transaction Value; Related Party Transactions; Post-Importation Adjustments, Ruling Date: 14 October 2024.

position, partner with the company's TP function in advance to conform the documentation to the § 152.103(l) framework – adapting comparables, benchmarking and policy documentation to the customs-specific requirements before entries are filed.

Don't conflate buying-agency arrangements with first sale. Buying-agency commissions and first-sale appraisement are distinct concepts, governed by different evidentiary standards. HQ H337972[22] denied first sale and rejected the claimed buying-agent commissions, finding the importer "has not shown that [the alleged buying agent] acted as a bona fide buying agent." If the structure relies on a buying agent rather than a true middleman, the buying-agency arrangement must be documented on its own terms: written buying agency agreement, agent's principal disclosed to manufacturer, commissions separately invoiced and the agent's authority to bind the buyer (not the seller) clearly established.

Don't underestimate the heightened scrutiny CBP applies to flash-title structures. CBP recognizes that "bona fide sales may occur in instances of 'flash title,'" but the rulings make clear that such transactions are "viewed with greater scrutiny so as to determine whether the middleman truly is an independent buyer/seller of goods or is actually acting as an agent on the part of one of the other parties." In HQ H310403[23], CBP flagged identical free on board (FOB) terms across every leg of the chain. In HQ H307028[24], CBP flagged simultaneous transfer of title. In HQ H347879[25], CBP applied the same scrutiny to a flash transfer of risk of loss. In each of these rulings, the importer could not overcome the scrutiny on middleman independence – flash titles are not invalid, but the burden it places on the importer is meaningful.

Don't wait for a protest or audit to assemble the file. Most denials in the 2020–2026 record arose in protest, application for further review (AFR) or internal-advice contexts, where CBP tested the actual transaction record. The file should be ready every day, on every entry.

The bottom line

The 25-ruling record from 2020 through 2026 is, on balance, a roadmap rather than a warning. CBP has approved first sale across product categories – wine, footwear, automotive parts, and others – for companies whose programs are well-documented, whose middlemen have real substance and whose related-party economics are supported with customs-specific evidence. The rulings that did not succeed almost always failed on documentation or structure, not on legal theory.

The right question for any company implementing first sale today is not "Are we eligible?" but "Could we prove every element of T.D. 96-87, on every entry, if CBP asked tomorrow?" For companies that can answer yes, FSFE remains exactly what it has always been: a legitimate, valuable and durable customs valuation strategy. For those that cannot, the path forward is clear – and the recent rulings have mapped it out in detail. ■

22 **H337972**: Internal Advice; First Sale Appraisement / Buying Agent Rules, Ruling Date: 24 February 2025.

23 **H310403**: Application for Further Review of Protest No. 2704-20-117509; "First sale" valuation, Ruling Date: 23 September 2020.

24 **H307028**: Application for Further Review of Protest Number 2704-18-101531; "First Sale" Appraisement; Multi-Tiered Transaction, Ruling Date: 2 February 2021.

25 **H347879**: Toys; Transaction Value; First Sale, Ruling Date: 12 September 2025.

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

Brazil's Authorized Economic Operator (AEO) Program undergoes changes: what companies need to know

Brazil's Federal Revenue Service (Receita Federal) has taken another significant step toward modernizing customs compliance with the publication of Coana Ordinance No. 187/2026. Effective immediately upon its publication on 7 April 2026, the new regulation replaces Coana Ordinance No. 164/2024 and provides the operational framework for Normative Instruction RFB No. 2.318/2026, which governs Brazil's Authorized Economic Operator (OEA) Program.

The changes signal a shift in the Customs Administration's approach: reducing bureaucracy, simplifying certification processes and leveraging data already available in government systems. For companies involved in international trade, these developments may lower administrative burdens while encouraging broader participation in the OEA Program itself.

A stronger focus on simplification

One of the most notable aspects of the new ordinance is its effort to streamline the certification process.

Historically, companies applying for OEA certification were required to submit extensive supporting documentation, even when much of the information was already available to the tax authorities. Under the new rules, Receita Federal will automatically verify several admissibility requirements through its own databases, eliminating the need for applicants to manually provide information that is already on file.

Beginning 15 April 2026, applicants pursuing OEA-Compliance certification (OEA-C) will no longer need to submit documentation related to:

- Corporate registration (CNPJ)
- Regular participation in eligible foreign trade activities
- Authorization to operate within their sector
- Tax compliance status
- Enrollment in the Electronic Tax Domicile (DTE)
- Submission of Digital Accounting Records (ECD)

This represents a meaningful reduction in administrative effort and should accelerate the preparation of certification requests.

However, companies should not interpret the simplification as a relaxation of requirements. The eligibility criteria remain fully in force, and Receita Federal retains the authority to request additional information, supporting evidence or clarifications whenever necessary during its review.

A more structured certification journey

Another important innovation is the formal introduction of certification levels at the application stage.

Companies applying under the OEA-Compliance modality will now be required to identify their intended certification level from the outset. Applicants must specify the status they are seeking:

- Essential
- Qualified
- Reference

While these distinctions already existed conceptually within the program, the new ordinance embeds them directly into the certification process.

From a policy perspective, this reflects Receita Federal's intention to create a more mature and segmented compliance environment. Organizations will be assessed according to the level of sophistication they seek to achieve, allowing customs authorities to align evaluation criteria with broader compliance initiatives such as the Confia and Sintonia programs.

For businesses, this effectively creates a compliance roadmap, where certification can be viewed not as a onetime achievement but as a progression toward increasingly advanced governance and risk management standards.

The introduction of OEA-C Essential: a new entry point

Perhaps the most strategically significant change is the creation of a new certification level: OEA-Compliance Essential (OEA-C Essential).

Designed primarily for commercial export companies and certain legal entities operating under specific Brazilian legislation, this new category appears intended to lower barriers to entry for organizations that may not yet have the compliance maturity required for more advanced certification levels.

Under the new framework, companies can obtain OEA-C Essential certification while committing to develop and formalize certain compliance controls after certification is granted.

Specifically, certified companies must demonstrate compliance with:

- The program's general OEA requirements
- Customs risk management requirements

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Supporting documentation must be uploaded to the OEA System within 180 days following publication of the Executive Declaratory Act (ADE) granting certification.

This represents an important shift in regulatory philosophy. Rather than requiring complete evidence upfront, Receita Federal is effectively allowing companies to enter the program earlier while providing a defined period to strengthen governance structures and compile the required documentation.

For many businesses – particularly exporters beginning their compliance transformation journey – this approach may significantly improve access to the benefits associated with AEO certification.

Documentation will become more important

Although the application process is becoming simpler, the ordinance places increased emphasis on maintaining compliance evidence after certification.

Documents submitted during the 180-day implementation period will become part of the company's permanent record within the OEA System and may be reviewed during:

- Ongoing monitoring activities
- Compliance audits
- Certification revalidation processes

As a result, companies should view documentation governance as a strategic capability rather than a regulatory formality.

Organizations that adopt disciplined approaches to evidence management, risk monitoring and control documentation will likely be better positioned to maintain certification status and progress to higher certification levels in the future.

Strategic implications for companies

The publication of Coana Ordinance No. 187/2026 reflects a broader trend in customs administration: moving away from document-heavy compliance models toward data-driven supervision and risk-based oversight.

For companies, this creates both opportunities and responsibilities.

The immediate benefits include easier access to certification, reduced administrative burdens and a more flexible pathway for organizations seeking to establish customs compliance frameworks. At the same time, companies will need to invest in sustainable governance structures, risk management processes and evidence retention practices to support future monitoring and certification renewals.

Organizations that have postponed OEA certification due to complexity or resource constraints may find that the new framework significantly lowers the entry barrier. Meanwhile, companies already participating in the program should evaluate how the new certification levels and documentation requirements align with their long-term compliance strategy.

Looking ahead

As Brazil continues to modernize its customs environment, the OEA Program is increasingly evolving into more than a certification framework – it is becoming a benchmark for corporate governance, customs compliance and supply chain resilience.

Companies should consider reassessing their eligibility, exploring the newly simplified application process, establishing robust customs risk management practices, and developing a medium-term strategy for progressing through the certification tiers from Essential to Qualified and ultimately Reference status.

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

EU tariff reductions for certain US-origin goods as of 1 July 2026

Introduction

As of 1 July 2026, importers may benefit from significantly reduced European Union (EU) customs duties on a wide range of goods originating in the United States. The tariff reductions follow Regulation (EU) 2026/1455[1] and implement commitments made under the EU–US Joint Statement of 21 August 2025, which formed part of a broader political agreement of 27 July 2025 (the Agreement on Reciprocal, Fair, and Balanced Trade, also referred to as the "Turnberry Deal"). In this agreement, the EU committed to eliminating customs duties on industrial goods from the US and granting preferential market access to various agricultural and fishery products. The new regulation gives effect to these commitments within the EU customs framework.

Background

The tariff reductions are not based on preferential origin rules typically found in free trade agreements. Instead, eligibility depends on the non-preferential origin of the imported goods. This distinction is important. While preferential origin often requires a specific proof of origin, the new measures rely on the origin rules set out in Article 60 of the Union Customs Code (UCC). Goods qualify if they are wholly obtained in the United States or, where more than one country is involved in production, if the last substantial transformation took place in the US.

Importantly, the traditional indicators such as a certificate of origin, a "Made in USA" label or a statement of origin on the invoice are not, by themselves, sufficient evidence. Instead, importers should obtain supporting documentation from exporters and manufacturers demonstrating where the goods were produced and where the last substantial processing or manufacturing operation took place.

A direct shipment rule applies for companies that want to benefit from the reduced import duty rates. Although the rule still allows goods to be shipped from the US to the EU via another country, the goods must remain under customs supervision in that third country during transport, storage or splitting of consignments. Processing or manufacturing operations are not permitted. Only activities necessary to preserve the goods or to add markings, labels, seals or documentation required for compliance purposes are allowed. Businesses should be able to demonstrate compliance through documentation such as transport records, storage evidence or non-manipulation certificates.

What businesses should do

Businesses should not assume that products shipped from the US automatically qualify for the reduced tariffs. The key question is whether the goods satisfy the EU's non-preferential origin rules. Importers claiming the benefit of the tariff reductions should be prepared to substantiate the non-preferential US origin of their products if requested by customs authorities.

This may create practical challenges, particularly for businesses sourcing products through complex supply chains involving multiple countries. Determining non-preferential origin often requires a detailed assessment of manufacturing processes and may differ significantly from a company's commercial understanding of a product's origin. For this reason, businesses should review their origin determinations and supporting documentation before claiming the duty reductions. ■

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1 Regulation (EU) 2026/1455 of the European Parliament and of the Council of 25 June 2026 on the adjustment of customs duties on imports of certain goods originating in the United States of America and opening of tariff quotas for imports of certain goods originating in the United States of America, OJ L, 2026/1455, 30.6.2026.

Back to Welcome

From transit to transformation: the rise of Logistics Corridors in the GCC

Logistics corridors differentiate themselves by combining smart policy design with operational efficiency, enabling the advance exchange of shipment data, the application of risk based customs controls, reduced physical inspections for trusted trade flows, faster border clearance, and, ultimately, lower logistics and compliance costs for traders.

Normal transit vs. corridor based movement

Traditional transit regimes focus on permitting goods to pass through territories, often involving multiple declarations, repeated controls and variable processing times. Corridor based movement restructures this model by defining routes, responsibilities and hand off points in advance.

Whether through enhanced customs coordination, as in the Dubai-Oman model, or logistics integration, as in the Sharjah-Saudi corridor (both discussed below), these corridors reduce friction not by removing controls but by making them more predictable, targeted and aligned with real trade flows.

For businesses, this means faster delivery times, predictable supply chains and greater confidence in cross border operations.

Why are logistics corridors a priority for GCC governments?

Across Europe, Asia and the Middle East, governments and businesses are embracing logistics corridors to strengthen global connectivity. These corridors have proved their value during crises, allowing food, medical supplies and industrial inputs to move without disruption. More importantly, they are no longer emergency solutions; they are becoming a permanent feature of modern trade infrastructure.

A clear regional example can be seen in the GCC, where Saudi Arabia, the United Arab Emirates (UAE) and Oman have activated alternative logistics corridors to maintain cargo flows amid rising geopolitical and maritime risks. Instead of relying solely on traditional shipping routes, cargo is being rerouted through Red Sea ports, Gulf of Oman terminals, inland trucking corridors, bonded transit regimes and rail networks.

In Saudi Arabia, an integrated logistics corridor network now links Red Sea ports such as Jeddah, King Abdullah Port, Yanbu, NEOM and Jizan to GCC and neighboring markets under transit, bonded or duty suspension regimes where applicable, facilitating more efficient cross-border movement while bypassing key maritime chokepoints.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

In the UAE, east coast ports such as Fujairah and Khor Fakkan are increasingly used as alternative gateways, with the development of the Etihad Rail expected to further strengthen supply chain resilience by linking ports, industrial zones and inland logistics hubs.

In Oman, ports at Sohar, Duqm and Salalah have been positioned as strategic regional gateways, supported by streamlined customs procedures and electronic transit systems to accelerate cross-border movement.

Dubai-Oman Green Corridor: practical application

At an operational level, the Dubai-Oman Green Corridor activated by Customs Notice No. 4/2026 functions as a customs managed bonded land route, designed to maintain cargo flows when shipments are diverted through Omani ports rather than entering the UAE directly.

Cargo arriving at Omani ports such as Sohar, Duqm or Salalah and ultimately destined for Dubai is first declared and processed under Omani customs procedures. Following this initial processing, containers or trucks are sealed and transported under bonded conditions through the designated Al Wajajah land border before entering the UAE via the Hatta crossing. Final customs clearance is then completed by Dubai Customs at the appropriate inland customs center, port or free zone, depending on the shipment's destination. The same framework applies in reverse for exports and re exports routed from Dubai through Oman.

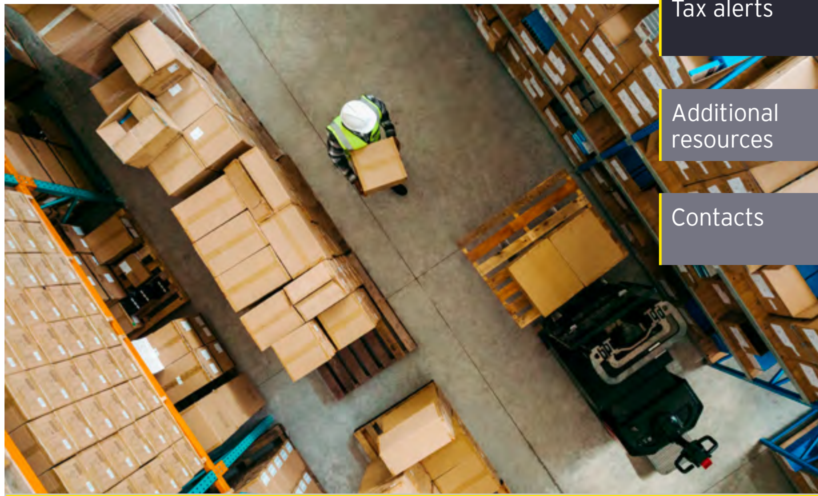
A defining feature of this corridor is that customs control is concentrated rather than duplicated. Customs compliance risk assessment approaches are aligned to the extent possible, with information sharing and operational coordination supporting more targeted inspections, allowing goods to move with fewer interruptions while remaining fully compliant with customs regulations.

While the movement of goods through the corridor applies broadly, certain categories of goods are excluded through the List of Non-Green Prohibited/ Restricted HS Codes. The list primarily covers sensitive goods spanning HS Chapter 01 (live animals and birds), Chapter 5 (The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) or CITES controlled animal products such as ivory), Chapter 24 (tobacco and smokeless products) and Chapter 26 (hazardous ash and metal residues). These products are excluded from Green Corridor treatment due to heightened regulatory, environmental, health or wildlife protection considerations and are subject to enhanced customs controls and permit requirements. Click here to view the full list.

Sharjah-Saudi Arabia corridor: a logistics centric corridor model

The Sharjah-Saudi Arabia corridor follows a different approach. Rather than a customs integrated corridor, it operates primarily as a multimodal logistics corridor linking ports, dry ports and inland transport networks between the UAE and Saudi Arabia.

This corridor improves efficiency by reducing handling stages, shortening transit times and offering predictable routing. Goods remain subject to normal customs procedures and inspections at the relevant border points. The gains of shorter transit times and reduced handling stages come from logistics integration rather than regulatory simplification.



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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

The Eligible Manufacturer Importer (EMI) Scheme in India

Introduction

The customs clearance process in India has progressively evolved from a transaction-centric system to one that increasingly incorporates facilitation measures for compliant importers and exporters. Alongside initiatives aimed at digitization, risk-based assessment and paperless processing, the customs law also provides for procedural mechanisms intended to simplify duty payment and cargo clearance for eligible importers.

One such mechanism is the facility for deferred payment of customs import duty, introduced under the Customs Act, 1962. Unlike the conventional procedure, under which customs duty is ordinarily required to be paid before an imported consignment is cleared for home consumption, the deferred-payment framework permits specified categories of importers to discharge the applicable duty after clearance of goods within a specified time period as prescribed under the relevant statutory framework.

Until recently, this facility was available only to specified categories of importers notified by the Central Government – principally Authorized Economic Operators (AEOs) meeting the prescribed criteria. The India Union Budget 2026-27 expanded the scope of this framework by introducing a new category of eligible importers known as Eligible Manufacturer Importers (EMIs) for the purpose of availing deferred payment of Customs import duty.

The introduction of the EMI Scheme represents a further development in the statutory framework governing deferred duty payment under the Customs Act, 1962. Following the budget announcement, the Central Government issued the necessary notifications under the Customs Act, 1962, followed by detailed operational guidelines issued by the Central Board of Indirect Taxes and Customs (CBIC). Together, these instruments prescribe the legislative basis, eligibility conditions, application procedure and operational framework governing the scheme.

The EMI Scheme is operational until 31 March 2028, during which period eligible entities may consider progressing toward AEO T2/T3 accreditation to continue availing of enhanced trade facilitation benefits, including deferred-duty payment and priority customs processing, subject to satisfaction of the applicable AEO eligibility requirements.

Legislative background

Section 47 of the Indian Customs Act, 1962 governs the clearance of imported goods intended for home consumption. The provision sets out the statutory conditions under which an importer becomes entitled to obtain an order permitting clearance of imported goods. The proviso to section 47(1) empowers the Central Government of India to notify classes of importers who may be permitted to defer payment of customs duty in accordance with the rules framed

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

for that purpose while continuing to obtain an order permitting clearance of imported goods for home consumption prior to payment of duty.

Pursuant to the enabling provision contained in section 47, the government of India issued the Deferred Payment of Import Duty Rules, 2016. The rules prescribe, inter alia, the manner in which deferred payment can be availed by an eligible class of importers, the due dates for payment of customs duty and the consequences of non-compliance.

Following the presentation of the Union Budget for 2026-27, the government of India issued Notification No. 12/2026-Customs (NT), dated 1 February 2026, that specified EMIs as a class of importers entitled to avail of the facility of deferred payment of customs import duty in accordance with the applicable rules. The notification also stipulated that the facility would become operational with effect from 1 April 2026 until 31 March 2028. Simultaneously, Notification No. 13/2026-Customs (NT), dated 1 February 2026, amended the Deferred Payment of Import Duty Rules, 2016 to provide the operational framework applicable to deferred payment under the expanded scheme.

Due dates for customs clearance

The due dates governing payment of deferred customs duty are prescribed under the Deferred Payment of Import Duty Rules, 2016, as amended.

For Bills of Entry returned for payment between the first day and the last day of any month other than March, payment is required to be made on or before the first day of the succeeding month.

In respect of Bills of Entry returned for payment during the month of March, the applicable duty is required to be paid on or before 31 March.

Circular explaining operationalization of EMI scheme issued

The CBIC issued Circular No. 08/2026-Customs, dated 28 February 2026, that prescribes the detailed eligibility conditions, application process, documentary requirements, approval mechanism, operational procedures, payment process and compliance framework applicable to EMIs.

EMI eligibility criteria

Importer and manufacturer status

The applicant must be an importer within the meaning of section 2(26) of the Customs Act, 1962 and a manufacturer as defined in section 2(72) of the Central Goods and Services Tax Act, 2017. The circular also extends eligibility to a category of applicants who are not manufacturers, provided they import inputs or capital goods and send such goods, without payment of tax, to a job worker under section 143 of the CGST Act, 2017.

Importer Exporter Code

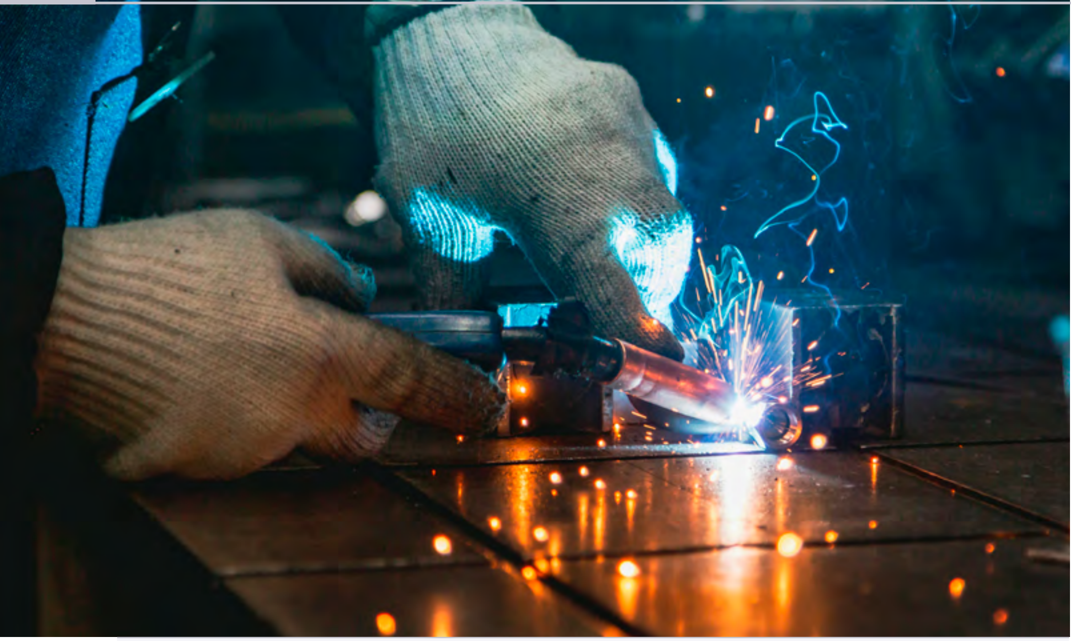
An applicant is required to possess a valid Importer Exporter Code (IEC) issued by the Directorate General of Foreign Trade (DGFT).

Minimum customs transactions

The applicant must have filed not less than 25 Bills of Entry and/or shipping bills during the financial year immediately preceding the date of application. For Micro, Small and Medium Enterprises (MSMEs), the threshold is 10 documents.

Goods and Services Tax (GST) registration

The applicant must possess at least one active GST registration under the Central Goods and Services Tax (CGST) /State Goods and Services Tax (SGST) Acts.



Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Manufacturing activity

For applicants who are manufacturers, the nature of business declared in FORM GST REG-01 should indicate "factory/manufacturing." Where an applicant has multiple GST registrations, it is sufficient if one of the active GST identification numbers (GSTINs) reflects manufacturing as the declared business activity.

If the applicant is not a manufacturer but any of its active GSTINs sends inputs or capital goods without payment of tax to a job worker for job work under the provisions of the CGST Act, then such GSTIN must have filed the last two half-yearly GSTR ITC-04. Further, the job worker must also have an active GSTIN and must have declared in the FORM GST REG-01 the nature of business activity being carried out at the mentioned premises as "factory/manufacturing." Where the job worker has multiple active GST registrations, at least one active GSTIN must indicate the nature of business activity as "factory/manufacturing" in FORM GST REG-01.

Turnover threshold

The aggregate annual turnover of all GST registrations having the same permanent account number (PAN) must exceed INR50m during the last financial year.

Business continuity

The applicant should have carried on business activities for at least two financial years preceding the date of application. For manufacturer applicants, this requirement is examined with reference to the "date of commencement of business" appearing in the relevant GST registration where manufacturing activity has been declared. For applicants operating through the job work route, the relevant GST registration through which inputs or capital goods are supplied for job work should have been in existence for the prescribed period.

GST compliance

The applicant should have filed all pending FORM GSTR-3B returns that had become due as on the date of submission of the application.

Apart from return filing, the applicant should not have collected any amount as tax under the CGST Act and failed to deposit the same with the government. The circular prescribes a similar condition in relation to duties collected under the Central Excise Act, 1944 and service tax collected under Chapter V of the Finance Act, 1994.

Insolvency or bankruptcy

An applicant is required to be financially solvent during the two financial years immediately preceding the application and should not currently be under insolvency, liquidation or bankruptcy proceedings. Compliance with this requirement is to be supported by a certificate issued by a Chartered Accountant in the prescribed format.

Criminal proceedings

The applicant, such as proprietors, partners or directors, as applicable, should not have been arrested or convicted for offences under the Customs Act, the Central Excise Act, Chapter V of the Finance Act, 1994, the CGST/SGST Acts or any other law for the time being in force. In addition, no prosecution proceedings should be pending against such persons under the specified enactments.

Previous rejection or suspension

An applicant is ineligible where an earlier application had been rejected because information furnished in that application was subsequently found to be false or a document submitted was found to be forged. Similarly, where approval granted earlier had been suspended on the same grounds, the applicant would not satisfy the prescribed eligibility conditions.

Existing AEO Tier-1 entities

Existing AEO Tier 1 entities, including MSMEs, are also eligible to apply under the EMI Scheme if they satisfy the prescribed eligibility conditions.

The circular clarifies that AEO Tier-1 entities may independently seek recognition as EMIs to avail of the deferred payment of import duty during the operational period of the scheme, subject to fulfilment of the prescribed eligibility conditions.

Filing of application

Applications for approval as an EMI are to be submitted electronically through the AEO India Portal. Electronic filing of applications commenced with effect from 1 March 2026 under the dedicated "Eligible Manufacturer Importer" tab available on the portal. Applicants are required to furnish the prescribed application form with the documents specified in Appendices II and III to the circular. The application is to be completed electronically in the manner prescribed on the portal.

Scrutiny of applications

The responsibility for examining applications rests with the Directorate of International Customs (DIC), CBIC. The designated officer of the DIC scrutinizes the application and verifies whether the prescribed eligibility conditions have been satisfied. The process includes examination of the declarations furnished by the applicant and the supporting documents uploaded through the electronic portal. Where the designated officer is satisfied that the applicant fulfills the prescribed conditions, approval is granted under the scheme.

Grant of approval

Upon approval, the applicant is recognized as an EMI for the purposes of the deferred payment facility, subject to continued compliance with the eligibility conditions and the continued operation of the scheme. At the time of granting approval, the designated officer updates the relevant particulars in the Customs Automated System to enable the applicant to avail of the deferred payment facility. Once these system updates have been carried out, no separate request is required from the approved EMI for activation of the deferred payment facility.

ICEGATE registration

Following approval, the authorized representative of the EMI is required to obtain an ICEGATE log-in in accordance with the procedure prescribed by CBIC. For this purpose, the circular requires the approved EMI to nominate or authorize a nodal person. The contact details of the nodal person are to be registered for authentication in accordance with the procedure prescribed on ICEGATE. The nodal person functions as the authorized representative for authenticating deferred-payment-related electronic transactions on behalf of the approved EMI.

Nodal person

When an approved EMI proposes to avail of the deferred payment facility for a Bill of Entry, the nodal person is required to authenticate the request electronically through ICEGATE. Authentication is carried out through a One Time Password (OTP) generated on the registered communication details of the nodal person. The nodal person can authenticate multiple Bills of Entry simultaneously, wherever required.

Filing of Bills of Entry

The option to avail of the deferred payment facility is exercised at the time of filing the Bill of Entry. The approved EMI is required to indicate the intention to avail of the deferred payment by selecting Payment Method Flag "D" in the relevant field of the Bill of Entry. The selection of this option identifies the Bill of Entry as one in respect of which deferred payment is proposed to be availed. The Customs Automated System processes the declaration in conjunction with the electronic authentication carried out through ICEGATE.

Electronic authentication

There is an additional electronic authentication before the deferred payment facility becomes available for a particular import transaction. The nodal person authorized by the approved EMI is required to confirm the intention to avail of the facility through the ICEGATE portal using the OTP-based authentication process. The benefit of deferred payment under the Deferred Payment of Import Duty Rules, 2016 becomes available only after completion of this electronic authentication.

Customs clearance

Upon completion of the prescribed system validations and electronic authentication, the imported goods are processed and an out-of-charge order may be granted without requiring immediate payment of the customs duty that would ordinarily be payable prior to clearance of the goods.

The liability to pay duty, however, continues to subsist and is required to be discharged in accordance with the due dates prescribed under the rules. The EMI has the flexibility to discharge the deferred duty liability prior to the prescribed due date.

Suspension or revocation of approval

The designated officer of the DIC may suspend or revoke the approval granted to an EMI if the approved entity becomes ineligible for the deferred payment facility at any point of time. Thus, approval under the scheme is subject to continued compliance with the prescribed conditions.

Dedicated helpdesk

A dedicated helpdesk has been established by the DIC to receive queries, suggestions, feedback, complaints and grievances relating to implementation of the scheme and to facilitate their resolution in accordance with the administrative procedures prescribed by CBIC.

Concluding remarks

The introduction of the EMI Scheme marks an expansion of the categories of importers eligible to avail of the deferred payment mechanism provided under the Customs Act, 1962. The scheme operates through the Customs Automated System and the AEO India Portal with minimal manual intervention, facilitating faster clearance processes and improved compliance management for eligible importers.

The EMI Scheme represents a significant trade facilitation measure aimed at manufacturing entities with a demonstrated compliance track record. In addition to providing working capital efficiencies through deferred payment of customs duty, the scheme may also serve as a pathway for eligible businesses to progress toward higher tiers of AEO accreditation and avail of the broader facilitation benefits associated with the AEO program.

As the scheme remains operational up to 31 March 2028, eligible manufacturers and job work-based manufacturing arrangements may evaluate the feasibility of obtaining EMI status to manage working capital efficiencies and customs clearance processes.

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Back to Welcome

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Trust & Check: from trusted trader facilitation to a data-driven model of customs supervision under the new Union Customs Code

All references in this analysis relate to the current draft proposal for a Regulation of the European Parliament and of the Council establishing the Union Customs Code and the European Union Customs Authority, and repealing Regulation (EU) No 952/2013. Following the political agreement reached on 26 March 2026, the text remains pending formal adoption and publication in the Official Journal of the European Union. Elements of the draft may therefore be subject to adjustment before final publication.

The reform of the Union Customs Code has often been presented through its most visible elements, particularly the creation of the European Union (EU) Customs Data Hub, the establishment of a new EU Customs Authority and the introduction of the Trust & Check (T&C) trader status.

Among these developments, the T&C status deserves particular attention, not only because of the facilitations associated with it, but because it provides a clear indication of the direction in which customs supervision is moving.

T&C has frequently been described as the natural evolution of the Authorized Economic Operator (AEO) program and a further step toward simplification for compliant operators. It can, however, also be understood as the clearest expression of a model in which customs supervision is no longer focused exclusively on declarations and intervention at specific procedural moments, but on the availability of integrated data generated within the supply chain. In that sense, the relevance of the new status lies less in the individual advantages it may grant and more in the type of system it presupposes.

In practical terms, T&C is conceived, under the proposed reform, as a specific category of trusted trader within the new Union Customs Code, reserved for importers, exporters or indirect representatives established in the customs territory of the EU that meet enhanced requirements in terms of compliance, financial solvency, internal control systems and data availability, and that have carried out regular customs operations for at least two years (Article 25(3) of the draft Regulation).

Against that background, the model is intended to allow a limited category of highly reliable operators to manage part of their customs operations with a significantly reduced level of direct intervention from customs authorities. Although the final conditions will depend on the adopted text, the current

framework already points to a system in which those operators may, under certain conditions: (i) release goods without waiting for active customs intervention and, in certain cases, at their own premises (Article 61); (ii) make available certain data after release, in justified circumstances related to supporting documentation or customs value determination (Article 59(3a)); (iii) move goods under customs supervision without the systematic use of the Union transit procedure (Article 25(7)); and (iv) manage customs obligations on an aggregated and periodic basis, with deferred payment and without the need for individual guarantees (Articles 181 and 188). For operators with complex and high-volume supply chains, these elements may contribute to greater predictability and operational continuity.

AEO and Trust & Check: continuity and evolution

The relationship between T&C and the existing AEO framework has been one of the key issues of the legislative process. The current direction of the reform supports the coexistence of both regimes. The AEO program is not eliminated and the AEO for customs simplifications is expected to remain in place. This outcome reflects, to a significant extent, the importance attached by different institutional and stakeholder positions to preserving the stability and practical value of the existing framework for operators that have already invested in AEO compliance.

The AEO program is fundamentally based on ex ante certification, through which the operator is assessed based on its compliance history, internal controls and organizational reliability. T&C builds on this foundation but introduces an additional dimension: the capacity of the operator to be supervised through access to operational data in real time.

From this perspective, the two models can be seen as complementary. The AEO program confirms the reliability of the operator, whereas the T&C program integrates that reliability into a system of ongoing supervision. The difference is therefore not limited to the degree of facilitation but concerns the basis on which customs control is carried out.

The changing role of traditional customs institutions

A review of the draft provisions governing the T&C status shows that the regime is not limited to granting a new status but implies a different way of organizing the inclusion of goods, their movement under customs supervision and the management of obligations.

Certain functions traditionally performed by customs authorities may, for T&C operators, be exercised differently, relying on access to operational data and on the prior assessment of the operator. The implications of this approach become more apparent when examining how specific elements of the existing framework would operate under this model.

Inclusion of goods and release

The draft provisions indicate that T&C operators may, under certain conditions, release goods at their premises or other authorized locations (Article 61) without waiting for active customs intervention. This autonomy is subject to the requirement that the necessary data and real-time information on arrival or dispatch be provided or made available to the EU Customs Data Hub.

Historically, the release of goods has taken the form of an express or implicit decision by customs authorities, based on the information available at the time of declaration. Under the new model, release is no longer necessarily tied to prior intervention. Instead, it takes place within a framework in which customs authorities retain the ability to intervene at any point based on the data available to them.

This autonomy is, however, subject to limits. Recital 16 of the draft Regulation makes clear that release without prior intervention is conditional on the absence of other legal requirements requiring prior approval. This may arise not only in relation to controls carried out by customs authorities — including export control, sanctions or licensing obligations — but also in relation to controls carried out by non-customs authorities in other regulatory contexts, such as sanitary, phytosanitary or market surveillance requirements. In such cases, the release of goods remains subject to prior verification, which may restrict the practical scope of automated procedures. This is a key open question that operators will need to monitor as the final text and implementing acts are published.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

The possibility of releasing goods at the operator's premises, combined with the use of locations designated or approved by customs authorities (including those proposed by the operator (Article 86)), affects the role traditionally played by temporary storage.

While the draft text formally maintains the requirement for goods to remain under customs supervision until they are assigned a customs-approved treatment or use, the operational logic of the model — in particular, the possibility of releasing goods without prior intervention — reduces the need for temporary storage to function as a distinct operational stage preceding the assignment of a customs procedure.

In that context, it becomes difficult to identify a specific operational function for temporary storage beyond its role as a legal status for non-Union goods. Where goods may be released immediately and supervised through continuous visibility over the operator's activity, temporary storage may no longer operate (in the context of T&C) as a clearly identifiable phase of the customs process, but rather as part of a broader framework of uninterrupted supervision.

The authorization regime for temporary storage facilities is maintained (Article 86d), which indicates that the concept is not removed for T&C but recontextualized. Its practical relevance is likely to remain limited to situations where physical controls are required or where other authorities intervene, in which case more traditional supervisory mechanisms continue to apply.

Data provision and timing

In addition to changes affecting the physical handling of goods, the draft text introduces a different approach to the provision and timing of the data required for customs purposes. T&C operators may, under certain conditions, make available part of the required information after release (Article 59(3a)). The draft text identifies justified circumstances tied to missing supporting documentation or the impossibility of finally determining customs value at the time of release as the primary scenarios for this flexibility.

From a legal perspective, this type of flexibility is not new. Under the current framework, comparable mechanisms already exist through simplified declarations, complementary declarations and arrangements allowing for the use of provisional data or agreed methods for determining certain elements of the customs value. In these contexts, not all relevant information needs to be available at the outset, and certain elements may be completed or adjusted at a later stage.

Under the T&C model, this flexibility is no longer confined to specific situations but forms part of the standard operational framework. What becomes relevant in practice is the ability to verify that the data made available over time is consistent, traceable and reliable.

Several practical aspects remain open, including the procedure through which additional data is to be made available, the applicable deadlines and the criteria for determining which elements may legitimately be provided after release. The reference to "justified circumstances" introduces a degree of flexibility that remains open to interpretation and may include situations such as valuation adjustments, missing documentation or elements not determinable at the time of release.

These questions become particularly relevant where the missing elements affect the calculation of duties. In such cases, the timing of data submission directly influences the determination and notification of the customs debt, as well as its interaction with other regimes such as deferred payment or periodic assessment.

Movement of goods under customs supervision — transit

A comparable development can be observed in relation to the movement and physical control of goods. The draft text indicates that for T&C operators, certain movements may take place without the systematic use of the Union transit procedure, which is no longer required as a standard mechanism in all cases.

Transit may therefore become less central in situations where continuity of supervision can be confirmed without the need for a formal movement procedure. Its role is, however, not eliminated and is likely to remain relevant in scenarios involving higher levels of risk or physical control.

At the same time, the practical implications of this approach remain to be clarified. It is not yet clear to what extent traditional elements associated with transit, such as the use of guarantees, sealing or other control mechanisms, will continue to apply or will be adapted in the context of the T&C model.

Determination and management of customs debt

The treatment of customs debt illustrates a similar development. The draft provisions allow T&C operators to determine customs debt on a periodic basis — covering all goods released within a period not exceeding 31 calendar days — and to benefit from deferred payment (Articles 181 and 188), while aligning the place where the debt is incurred with the Member State of establishment of the operator (Article 169). The operator must communicate the total amount to the supervising customs authority within five calendar days of the end of the period. Importantly, while the general deferral period is 30 days from notification, that period is reduced by half where debts are aggregated.

The possibility of aggregating operations over a period is already known under the current framework in limited contexts, particularly in connection with entries in the declarant's records (EIDR) and certain deferred payment arrangements.

Under T&C, these mechanisms are integrated into the standard operation of the regime, which may lead to more complex interactions between determination, notification and payment, as well as in the identification of competent authorities.

These aspects are particularly relevant in cross-border contexts where goods are physically imported through a Member State other than that of establishment. The implications for import value-added tax (VAT) remain uncertain and represent one of the most significant open issues of the reform. Under Article 169 of the draft, the customs debt is incurred in the Member State of establishment of the T&C operator, not in the Member State of physical entry. This is a departure from the current territorial linkage between the place of physical entry and the collection of import VAT, which has applied even where centralized clearance arrangements have been used.

Under the current framework, import VAT is closely linked to the place of physical entry of the goods into the EU and is generally assessed and collected by the authorities of the Member State in which the goods are released for free circulation. This remains the case even where customs simplifications such as European centralized clearance are applied, although these may require additional coordination mechanisms.

In the context of the T&C model, however, this territorial linkage may become more difficult to reconcile with the rules governing the determination of customs debt, which are aligned with the Member State of establishment of the operator. Where goods are physically imported through one Member State but the customs obligations are managed in another, questions arise not only as to the timing of VAT but also as to the identification of the competent authorities and the applicable VAT regime.

While it could be assumed that solutions analogous to those currently applied in the context of centralized clearance will be developed, the draft provisions do not yet provide sufficient detail on how this interaction will be structured in practice. Further clarification will be required to promote consistency between the customs and VAT frameworks and to avoid mismatches between the place of importation and the allocation of fiscal competence.

The EU Customs Data Hub as the infrastructure of the new model

The developments described above cannot be understood without considering the role of the EU Customs Data Hub. While often presented as a technical feature, the Data Hub constitutes the infrastructure on which this model depends.

In that sense, the Data Hub does not operate merely as a technological platform but as the structural element that enables the practical operation of the T&C model.

By replacing fragmented national systems with a single environment for the submission, storage and analysis of data at Union level, it enables customs authorities to operate on a single, integrated data environment spanning multiple Member States, rather than relying on fragmented procedural inputs.

The implementation of this system is expected to follow a staged approach, and the effective application of the T&C regime will depend on the maturity of the underlying infrastructure.

At the same time, the model raises important questions regarding data governance, access to commercially sensitive information and coordination with other authorities. The extent to which non-customs authorities will be able to access or rely on this data remains to be clarified and will be essential for the effectiveness of the system. These issues also have direct implications for the allocation of responsibilities between operators and authorities, as well as for the legal certainty of supervisory ctions.

Implications for customs representation

A further dimension that deserves attention concerns the interaction between the T&C status and customs representation arrangements (Article 27 of the draft). The draft text establishes that a customs representative holding T&C status will only be recognized as such when acting as an indirect representative. Where the representative acts as a direct representative, it will only carry T&C recognition if the person on whose behalf it acts also holds T&C status. If that person does not hold T&C status, the direct representative will only benefit from AEO-level treatment. Additionally, only customs representatives holding at least AEO status for customs simplifications, or T&C status, may provide services in a Member State other than the one in which they are established and may release goods sold under distance sales arrangements into free circulation. These rules significantly affect the operational models of customs brokers and intermediaries operating in cross-border contexts and require careful assessment of the status held by all parties involved in a given supply chain.

Implications for economic operators

For businesses, the introduction of T&C entails significant changes. The status presupposes a high level of organizational and technological maturity, including integrated systems, robust data governance and effective internal controls.

For operators capable of meeting these requirements, the model may allow for more fluid interaction with customs authorities and greater continuity in operations. However, access to the regime depends primarily on organizational capability rather than size.

Recital 17a and Article 25a acknowledge the specific situation of Small and Medium-Sized Enterprises (SMEs) and provide for the development of guidance by the Commission to support their access to both the AEO and T&C statuses. While the substantive requirements are not reduced, the possibility of adapting their application suggests that the regime is not limited to large operators. However, the practical requirement for system integration with the EU Customs Data Hub represents a significant investment threshold that will pose genuine challenges for smaller entities.

Conclusion

The T&C regime goes beyond the introduction of new operational possibilities and, in practice, challenges the way in which the different components of the customs framework interact with each other. It also represents a gateway to specific operational models that are otherwise inaccessible: under Article 122a of the draft, only T&C operators registered under the Import One Stop Shop (IOSS) scheme may place goods sold under distance sales arrangements in customs warehousing – making T&C a structural requirement for e-commerce operators seeking to use that facility.

What emerges from this evolution is not simply a redefinition of individual procedures, but the opportunity to reorganize the system around a more integrated and flexible approach to supervision, in which the effectiveness of control is less dependent on predefined procedural sequences and more closely linked to the quality and accessibility of information generated by the operator. It should be noted, however, that several critical aspects of the regime – including the exact procedure for self-release, the conditions for operator-conducted controls and the data requirements for customs debt notification – remain subject to delegated acts to be adopted by the Commission (Recital 67). The regime's practical scope will therefore not be fully defined until those acts are published.

For economic operators, this also represents a tangible opportunity, particularly for those capable of aligning their systems, data governance and internal processes with the requirements of the model, enabling more streamlined operations and greater predictability. It is important to note that the full T&C regime is operationally linked to the availability of the EU Customs Data Hub, which is expected to open on a voluntary basis for all traders from 2032 (Recital 74). This means that preparation – in terms of IT systems, data governance and internal controls – should begin well in advance of that date.

Whether this potential is realized will depend on the extent to which the implementation of the regime succeeds in supporting a coherent interaction between customs rules, other applicable regulatory frameworks and the practical organization of control by the competent authorities. Operators should also be aware that, once granted, the T&C status is subject to ongoing monitoring and to an in-depth re-evaluation – including an on-site visit – at least every two years (Article 25(4)), which implies a sustained compliance commitment rather than a one-time certification exercise.

T&C therefore represents not only an evolution in the tools available to customs authorities, but a step toward a more integrated approach to supervision, the effectiveness of which will ultimately rely on the alignment between legal design, administrative practice and the operational capabilities of economic operators. ■

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

Reforming EU customs for e-commerce: what businesses should prepare for now

Introduction

The European Union's (EU's) reform of the Customs Union is becoming one of the most important regulatory developments for businesses involved in cross-border e-commerce. The reform is driven by a simple but fundamental development: the current customs framework was not designed for billions of low-value parcels entering the EU directly from third countries to consumers (see TradeWatch article for Issue 1 2026). What was once a relatively marginal import channel has become a core feature of global retail, placing significant pressure on customs authorities, market surveillance bodies and compliant businesses operating in the EU.

Especially for e-commerce businesses, the reform is not merely a technical customs update. It will directly affect pricing, landed-cost calculations, platform governance, product data, value-added tax (VAT) and customs processes, logistics routing and the design of EU distribution models. The abolition of the EUR150 customs duty relief, the temporary EUR3 fixed import duty, the proposed Union handling fee, the product identifier requirement, the future deemed importer model and the EU Customs Data Hub collectively point in one direction: e-commerce imports into the EU will become more data-driven, more transparent and more clearly linked to accountable economic operators.

Background

The first major change applies from 1 July 2026. The EU has abolished the customs duty relief for consignments with an intrinsic value not exceeding EUR150, introduced a temporary fixed customs duty of EUR3 per item for qualifying low-value imports, phased in a product identifier requirement and introduced anti-avoidance measures.

The European Commission describes the EUR3 fixed import duty as temporary and expects to apply it until 1 July 2028, when the e-commerce elements of the broader customs reform and the EU Customs Data Hub are expected to become operational.[1] The EUR3 duty is not a simple charge per parcel but applies per "item" in the customs declaration. An item may consist of one or more goods in a consignment that share the same tariff classification, description and, where required, origin. This means that the practical impact of the

1 COUNCIL REGULATION (EU) 2026/382 of 11 February 2026 amending Regulation (EC) No 1186/2009 as regards the elimination of the threshold-based customs duty relief, OJ L, 2026/382.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

measure depends on how goods are classified, described and declared. Product bundling and the type of import declaration can directly influence the number of chargeable items.

Another important development is the introduction of product identifier requirements. As of 1 July 2026, businesses may voluntarily report product identifiers; the requirement becomes mandatory from 1 November 2026. These identifiers are intended to help customs authorities trace products and extend findings from specific controls to identical or similar goods. From a business perspective, this turns product master data into a customs compliance issue. Inconsistent product descriptions, missing manufacturer identifiers or poor alignment between commercial product data and customs classification may create clearance delays and audit exposure.

The new rules also establish a hierarchy for determining who is responsible for paying the EUR3 customs duty. As a starting point, the declarant is responsible for the duty. A cascading approach applies: first, the Import One Stop Shop (IOSS) holder is considered the declarant; in the absence of IOSS, the user of the Special Arrangements assumes this role; failing that, the indirect representative of the importer becomes the declarant. Only as a last resort may the consumer become liable for the duty, and only in those EU Member States that offer a cost-free, web-based customs declaration system for private individuals outside the IOSS framework.

Anti-avoidance provisions also entered into force on 1 July 2026. These rules empower customs authorities to look beyond the form of a declaration and assess whether goods declared in a single customs declaration actually consist of multiple distance sales that have been grouped together. If customs authorities conclude that the transaction qualifies as a distance sale, they must apply the relevant customs rules as if the goods had been sold as distance sales from the outset. This is intended to prevent businesses from artificially structuring transactions to avoid the EUR3 customs duty or related e-commerce customs rules.

The fixed duty is only one part of the broader cost picture. The reform also includes the concept of a Union handling fee for distance sales, aimed at compensating customs authorities for the administrative and control burden created by e-commerce flows. This fee is expected to be charged as of November 2026 and is distinguished from the EUR3 duty. The duty is a customs duty and level-playing-field measure, whereas the handling fee is framed as a cost-recovery measure for customs supervision. Like the fixed import duty, the Union handling fee will be levied per item, with a reduced fee potentially applying where goods are released through a customs warehouse arrangement for distance sales, an option applicable as of 1 July 2028.

In addition, some Member States have introduced or considered national small-parcel charges. France and Romania are jurisdictions that moved forward with national measures, whereas Italy postponed implementation and countries such as the Netherlands and Belgium placed their plans on hold. This creates a risk of fragmented cost exposure depending on the Member State of customs clearance. Businesses must not only know where the consumer is established but also where the goods are released for free circulation.

The EU Customs Data Hub is expected to become operational for e-commerce goods on 1 July 2028. It will provide a single EU environment through which customs and product information can be submitted and used for risk analysis. The Data Hub is intended to replace fragmented national customs IT systems over time and support a more centralized, data-led supervision model. For businesses, this means that customs compliance will increasingly depend on the quality and consistency of data submitted before goods arrive at the EU border.

Closely linked to the Data Hub is the deemed importer concept applicable 12 months after the modernized Union Customs Code enters into force. The reform shifts responsibility away from consumers and fragmented logistics intermediaries

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

toward the economic operators that supply or facilitate distance sales. Platforms and marketplaces that qualify as deemed importers will become responsible for customs obligations connected with goods sold into the EU. This approach mirrors, to some extent, the VAT e-commerce model under which platforms can be treated as deemed suppliers. The customs version, however, may have broader operational consequences because it links fiscal obligations to product compliance, data availability and market surveillance requirements.

What businesses should do

In addition to adopting the customs rules related to e-commerce that took effect 1 July 2026, businesses should use the 2026–2028 transition period to assess whether their current operating models remain commercially sustainable and compliant. In particular, sellers, platforms, marketplaces, postal operators, express carriers and customs brokers should determine how the new rules affect their product data, declaration processes, contracts, customer pricing and clearance strategy.

Businesses should first quantify their exposure under the temporary EUR3 duty. This requires more than applying a flat charge to total parcel volumes. Companies should review their product portfolio, tariff classifications, declaration datasets, SKU combinations and shipment composition to determine how many chargeable "items" may arise in practice. Product categories with low unit values or narrow margins should be prioritized because the fixed duty may represent a significant proportion of the final selling price.

Second, businesses should also reassess their IOSS strategy. IOSS remains a VAT mechanism, but the customs reform increasingly interacts with IOSS flows. The reform environment is placing more pressure on non-EU sellers to use IOSS, while alternatives may involve greater VAT compliance fragmentation, local registration requirements or reliance on other arrangements. Businesses should therefore compare the cost and operational consequences of IOSS and non-IOSS models, including the impact on customer delivery experience.

Third, companies should review whether national handling fees, and ultimately the Union handling fee, affect their routing and clearance strategy. This requires mapping the Member State in which parcels are released for free circulation, the party acting as declarant, the use of postal or express channels and the role of customs representatives. Businesses should also consider how these charges are reflected in consumer pricing, platform fees, seller terms and logistics contracts.

Fourth, platforms and marketplaces should prepare for the deemed importer model. This means strengthening seller onboarding, product compliance checks, contractual audit rights, indemnities, data-reporting obligations and escalation procedures for non-compliant sellers. Platforms should also identify which data they currently receive from sellers, which data they validate and which data they will need to provide to customs authorities through the future Data Hub.

Fifth, businesses should also improve product master data now. The product identifier requirement shows that customs authorities are moving toward greater product-level traceability. Companies should align commercial product data, manufacturer identifiers, standardized identifiers, Harmonized System (HS) classification, origin information and product compliance documentation. This is particularly important for businesses selling goods subject to product safety, environmental, excise, Carbon Border Adjustment Mechanism (CBAM), EU Deforestation Regulation (EUDR) or other regulatory requirements that depend on accurate classification.

Finally, businesses should treat the EU Customs Data Hub as a strategic readiness project rather than an IT implementation at the end of the process. The companies best positioned for the new environment will be those that can connect marketplace data, enterprise resource planning (ERP) systems, VAT reporting, customs classification, broker instructions and logistics data in a consistent and auditable way. Data maturity will increasingly become a competitive differentiator in EU e-commerce.

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Back to Welcome

Contents

Insights

New on ey.com

Tax alerts

Additional resources

Contacts

The EU's new steel import regime from temporary safeguards to long-term protection

As outlined previously,[1] the European Union (EU) steel safeguard measures were introduced in 2019 as a temporary response to increased steel imports into the EU following trade diversion partially caused by the US Section 232 tariffs.[2] The article discussed how these measures operated under the World Trade Organization (WTO) and EU law and how they intended to protect the EU steel industry through a system of tariff-rate quotas. However, safeguard measures are inherently temporary and, under WTO rules, cannot remain in force for more than eight years. As the EU steel safeguard measures reached this maximum duration, they have now been succeeded by a new EU steel measure.

On 24 June 2026, the EU published a new framework to permanently protect the EU steel market from the negative trade-related effects of global overcapacity.[3] The measure responds to the EU's concern that global steel overcapacity, combined with trade-restrictive measures in third countries, increases the risk of trade diversion into the EU market. The EU steel sector is considered to be a strategic and indispensable sector, both for the economy and for defense capabilities, which need to be protected from such impacts according to the EU.[4] Therefore, the new framework aims to reduce import pressure and provide a long-term solution to protect and support EU producers and operators. This framework also forms part of the broader EU Steel and Metals Action Plan, which seeks to strengthen the competitiveness, resilience and decarbonization of the European steel and metals industry.

1 TradeWatch Issue 1 2025, Global Insights

2 COMMISSION IMPLEMENTING REGULATION (EU) 2023/2840 of 14 December 2023 amending Implementing Regulation (EU) 2019/159 imposing a definitive safeguard measure on imports of certain steel products.

3 Regulation (EU) 2026/1384 of the European Parliament and of the Council of 17 June 2026 addressing the negative trade-related effects of global overcapacity on the Union steel market and amending Regulation (EU) 202/2170.

4 Steel overcapacity: Council greenlights new rules to protect the EU steel market from global overcapacity

The new regulation has replaced the EU steel safeguard measure, which expired on 30 June 2026, and applies from 1 July 2026. With respect to the product scope, the difference is minimal. A central feature of the new measure is the tariff-rate quota system, which is essentially in line with the previous steel safeguard measure. Imports within the duty-free quota may continue to enter the EU without the additional duty, while imports exceeding the quota will be subject to a 50% duty. Under the previous steel safeguard measure, out-of-quota imports were subject to a 25% duty, which demonstrates the stricter nature of the new measure. To this point, the total free-of-duty quota is set at approximately 18.3 million metric tons per year, representing a significant reduction of 47% compared with the 2024 steel safeguard quota level. In addition, 50% of the volume will be reserved for free trade agreement (FTA) partners while the remaining 50% will be open to all WTO members, including FTA partners.

The tariff quota is set per annum and will be administered quarterly with certain carry-over possibilities for unused quotas, particularly during the first year of application. The distribution of the tariff quotas has been set by an Implementing Regulation published on 30 June 2026.[5]

5 Implementing regulation - EU - 2026/1457 - EN - EUR-Lex

	Steel safeguard measure		New EU steel measure
Quota volumes	Approx. **34.5 million** tonnes/year		**18.3 million** tonnes/year
Out-of-quota duty	**25%**		**50%**
International legal basis	Article XIX of the General Agreement on Tariffs and Trade and the WTO agreement on safeguards		No specified legal basis; however, the EU claims the measure is WTO compliant and intends to negotiate changes to its broader WTO tariffs under Article XXVIII of the GATT
EU legal basis	Regulation (EU) 2015/478		EU Common Commercial Policy (Art. 207(2) TFEU)
Period of application	Maximum **8 years**		**Unlimited**
Liberalization rate (=progressive increase in TRQs)	Initially **5%**	progressively reduced to **0.1%** in the latest review	**Non-existent**
Developing countries	Exempted (with exceptions)		No exemptions

Contents

Insights

New on ey.com

Tax alerts

Additional resources

Contacts

The regulation introduces a "melt and pour" traceability requirement. This concept refers to the country where the steel was first produced in liquid form and cast into its initial solid form. The requirement is intended to increase transparency in steel supply chains and help prevent non-compliance. In practice, importers are required to obtain and provide reliable documentary evidence, which will be concretized through an implementing act, to demonstrate where the steel was originally melted and poured. Nevertheless, the origin of the products subject to the new steel measure will for the purpose of the measure be determined in accordance with the provisions on non-preferential origin of the Union Customs Code. The European Commission has been tasked to assess whether the "country of melt and pour" could become the basis for benefiting from the tariff quotas.

The measure targets imports of certain steel products of all origins except for European Economic Area (EEA) countries,[6] which will still be subject to the "melt and pour" rule with the same evidentiary requirement so that steel does not bypass EU controls through the exempted countries. It is intended to provide continued protection for the EU steel sector that is no longer limited in time, contrary to the current EU steel safeguard measure.

The commission is set to review the scope periodically, with a first review planned for the end of this year. One year after entry into force, the commission will also review whether downstream iron or steel products should also be covered by this regulation. Three years after entry into force of the measure and every two years thereafter, the scope of the measure will be subject to review. In addition, three years after entry into force and every three years thereafter, the measure will also be subject to a broader review to assess its effectiveness.

For businesses, the new measure is relevant not only because of the higher out-of-quota duty rate, but also because of the compliance and supply chain implications. Importers and downstream users may need to monitor quota availability even more closely, assess potential duty exposure and strengthen contractual arrangements with suppliers. In particular, companies should consider whether they can obtain sufficient "melt and pour" evidence and whether existing supplier documentation will meet the requirements once the implementing act applies.

The measure, as mentioned, contains review mechanisms that may affect its future scope, and as such a close monitoring of the developments of this regulation is essential. The new regulation already explicitly mentions 14 Combined Nomenclature (CN) codes that will potentially be added to the scope after the first review. The commission will then periodically assess whether additional products should be brought within scope, resulting in a potentially increased impact. Businesses should therefore treat the new steel framework as an evolving measure rather than a one-off change.

What companies can do today to support compliance and improve quota usage to avoid or reduce duty costs:

Assess duty exposure
The reduction in quota volumes and the increase of the out-of-quota duty from 25% to 50% can significantly increase import costs. It is important to recalculate the cost of affected steel products and identify imports that could become commercially unviable if quotas are exhausted.

Monitor quota availability more closely
Quota management will become even more critical under the new measure. Given the reduced quota volumes and quarterly administration, it will be of even greater importance to establish processes to monitor quota consumption regularly and factor quota availability into purchasing decisions.

Align procurement planning with quota periods
Import timing may have a direct impact on duty exposure. Assess whether purchases can be scheduled around quarterly quota availability and make use of any carry-over opportunities where applicable.

6 Norway, Iceland and Lichtenstein.

Review sourcing strategy
The allocation of 50% of the quota volume to FTA partners may create competitive advantages for certain suppliers. Businesses should evaluate whether sourcing from FTA countries could improve quota access or reduce the risk of out-of-quota imports.

Review whether suppliers can meet the new compliance requirements
The new "melt and pour" obligation requires a level of supply chain transparency that many suppliers and traders may not currently provide. Proactively assess whether suppliers can deliver the required documentation.

Start collecting "melt and pour" information now
Although the exact evidentiary requirements are still being finalized, companies should not wait for the implementing act. Early engagement with mills, distributors and traders can help identify documentation gaps well before customs authorities begin enforcing the requirements.

Strengthen contractual arrangements with suppliers
Supply agreements should be reviewed to include obligations relating to "melt and pour" documentation, customs cooperation, notification of sourcing changes and responsibility for additional duty costs arising from non-compliance or quota shortages.

Verify that your product classifications remain accurate
As the measure is linked to specific CN codes and product categories, incorrect tariff classifications could create significant compliance risks. A classification review may be advisable.

Identify products that could be brought within scope in future
The regulation explicitly provides for future reviews and already identifies several CN codes that may be added. Assess your portfolio against the list of products under review and consider potential future exposure, including exposure to downstream products.

Reassess imports from developing countries
A review is necessary when previously benefiting from developing-country exemptions under the safeguard regime. Those exemptions are no longer available under the new framework, potentially affecting both costs and quota access.

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

The EU customs reform: from political agreement to practical change

Introduction

There has been an ongoing legislative initiative to reform the EU Customs legislation.[1] On 26 March 2026, the European Parliament and the Council reached a political agreement on the Commission's proposal to reform the current Union Customs Code (UCC). The agreement comes against a backdrop of profound changes in the global customs trade environment. The sharp increase in e-commerce volumes, growing geopolitical and economic uncertainties, the fragmentation of EU customs authorities and systems, and an increasing number of other EU legislative actions that are partially enforced by the customs authorities of EU Member States have created pressure. The reform seeks to address these challenges by establishing a more modern approach to e-commerce, an integrated and data-driven customs environment, and better partnerships with economic operators.

More broadly, the reform reflects a fundamental shift in the way customs authorities are expected to operate. Rather than relying primarily on transaction-based controls, the future model is built around data-driven supervision, allowing customs authorities to identify risks earlier, improving consistency of enforcement and enhancing cooperation across the EU. The establishment of the EU Customs Authority (EUCA) and the gradual rollout of the EU Customs Data Hub are expected to play a central role in achieving these objectives.

This article provides an overview of the proposed reform and its phased implementation, before examining in greater detail several of its cornerstone initiatives, including the impact on e-commerce, the Trust and Check principles, and the EU Customs Data Hub, which is expected to become the backbone of the future EU customs landscape.

1 TradeWatch Issue 1 2026

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Final steps of legislative procedure

Date/timing
26 March 2026

Key milestone
Political agreement reached by the European Parliament and the Council.

Date/timing
Publication (expected October 2026)

Key milestone
Publication of the reformed UCC in the Official Journal of the European Union once formally adopted by Council and Parliament.

Institutional setup and fees

Date/timing
One day after publication

Key milestone
The reformed UCC enters into force and application of certain specific articles related to:

- Institutional and procedural aspects of EU Customs Authority and EU Customs Data Hub
- Certain definitions and concepts related to distance sales and e-commerce (including basis for levying handling fee)
- Customs value for export duties

Date/timing
10 days after publication

Key milestone
Customs authorities will start collecting a handling fee that will be determined by means of a delegated act adopted by the European Commission.

Digital transition

Date/timing
12 months after publication (~2027)

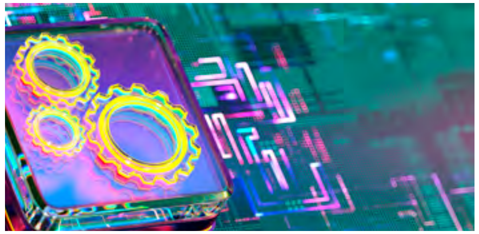
Key milestone
The bulk of the articles (those not mentioned separately) become applicable. This includes the repeal of the current UCC (Regulation 952/2013).

Date/timing
1 July 2028

Key milestone
Start of EU Customs Data Hub for distance sales.

Date/timing
1 March 2031

Key milestone
Importers, exporters and holders of the transit procedure may voluntarily use the EU Customs Data Hub.



Fully digital Customs Union

Date/timing
1 February 2034

Key milestone
EU Customs Data Hub becomes fully operational.

Date/timing
1 March 2034

Key milestone
Use of the EU Customs Data Hub becomes mandatory for all traders and customs declarations are phased out.

Turning the reform into reality: key dates and milestones

Entry into force and general application

The reformed UCC will enter into force on the day after its publication in the Official Journal of the European Union. From that date, some specific provisions will apply, including definitions for consignments, distance sales and items. These definitions will shape the scope of the new e-commerce rules and determine which transactions and goods are covered. Rules on the Union handling fee, the framework of the EU Customs Data Hub, certain distance sales and customs valuation rules (for distance sales and for export duties), and provisions establishing the EU Customs Authority will come into effect, meaning the reform will have immediate legal effect even though most operational changes will follow at a later stage.

Unless another date is specifically provided, the majority of the provisions of the new UCC will apply 12 months after entry into force, which is also when the current UCC will be repealed.

Once the current UCC (Regulation 952/2013) is repealed, references to that Regulation must be construed as references to the reformed UCC and read in accordance with the correlation table linking the articles of the new UCC to those of the current UCC. However, the currently applicable Implementing and Delegated Regulations will continue to apply until they are repealed by secondary legislation adopted pursuant to the reformed UCC. Such secondary legislation can only be formally proposed once the new UCC has been published. This means there will most likely be a few months during which the new UCC will have to be read and applied together with the implementing and delegated acts adopted under the current UCC.

Union handling fee

The Union handling fee is one of the first concrete measures linked to the new treatment of e-commerce imports. Within 10 days after publication of the reformed UCC, the Commission must adopt a delegated act setting the amount of the fee. Customs authorities will start collecting the fee 10 days after that delegated act enters into force. The fee will apply to items in consignments of goods sold through distance sales and is intended to support the administrative handling of these imports.

Distance sales and first Data Hub phase

Until 30 June 2028, goods placed under a customs procedure must still be covered by a customs declaration. This preserves the existing declaration-based process during the initial transition period. From 1 July 2028, specific rules for distance sales will start to apply, marking the first practical use case for the EU Customs Data Hub. Importers will then need to provide the required data through the Data Hub. To make this possible, the EU must adopt the relevant delegated and implementing acts by 1 July 2027, and the Data Hub functionalities must be operational by 1 June 2028.

Transition for other operators

Until 28 February 2031, importers other than distance sales operators, as well as exporters and holders of the transit procedure, must continue to lodge customs declarations. From 1 March 2031, these operators will enter a voluntary transition phase. During this phase, they may either continue to lodge customs declarations or provide the relevant information through the EU Customs Data Hub. This optional period gives businesses time to adapt their systems and processes before use of the Data Hub becomes mandatory. The relevant delegated and implementing acts will be adopted by 1 March 2029.

Mandatory use of the EU Customs Data Hub

Starting 1 March 2034, all economic operators will be required to use the EU Customs Data Hub. This marks the end of the voluntary transition phase and the point at which the Data Hub becomes the standard channel for providing customs data. Businesses will need to have their internal systems and processes ready to exchange the required information through the new platform. The delegated and implementing acts for this phase will be adopted by 31 January 2033, and the EU must establish that the Data Hub is fully operational by 1 February 2034.

Exceptional circumstances

If a relevant EU Customs Data Hub functionality is not operational by the applicable deadline due to exceptional circumstances, the Commission may provide a transitional solution in coordination with the Member States. This safeguard is intended to avoid disruption for businesses where the technical infrastructure is not yet fully available. Any transitional solution may remain in place for up to six months after the relevant deadline.

Conclusion

The reform of the UCC marks a decisive move toward a more digital, data-driven and coordinated EU customs framework. While some provisions will apply immediately after entry into force, the most significant operational changes will be phased in over several years. Businesses should use this transition period to assess their data, systems and customs processes in light of the future EU Customs Data Hub. Early preparation will be essential to ensure a smooth move from today's declaration-based model to the new customs environment.

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Proposed major excise tax changes impacting trade with Germany

Germany, like many other countries, is drafting its 2027 budget law amid fiscal pressure and a need to identify additional revenue sources. The proposal aims to ease the liability on lower-income households without overburdening higher-income households; the goal is to preserve incentives for higher earners to increase income while still retaining a benefit after income tax is applied. At the same time, corporate taxes as well as social security system fees will be decreased to improve the competitiveness of businesses in Germany. One key measure to raise revenue to compensate for decreases in other taxes is to increase excise taxes, alongside expected changes to value-added tax (VAT). This approach burdens local consumption while also impacting imports coming to the local market.

Alcohol-related taxes

Health organizations are increasingly pushing for higher alcohol-related taxes. Germany traditionally has comparatively low taxes on alcohol. The 2027 draft budget plan considers raising taxes on alcohol, alcopops and sparkling wine by 20 percent. Tax rates on beer and (still) wine are currently not expected to change. While the same health arguments exist, many producers are already in a challenging economic position, as consumption volumes have declined for several consecutive years. Debates continue, the exclusion has drawn harsh criticism, and further developments remain to be seen.

Tobacco tax

Taxes on tobacco and tobacco products as well as substitutes (like liquids) are expected to increase more quickly and sharply than previously planned. As an example, the price for a pack of cigarettes is expected to rise to EUR12 by 2030, which is the current level in France.

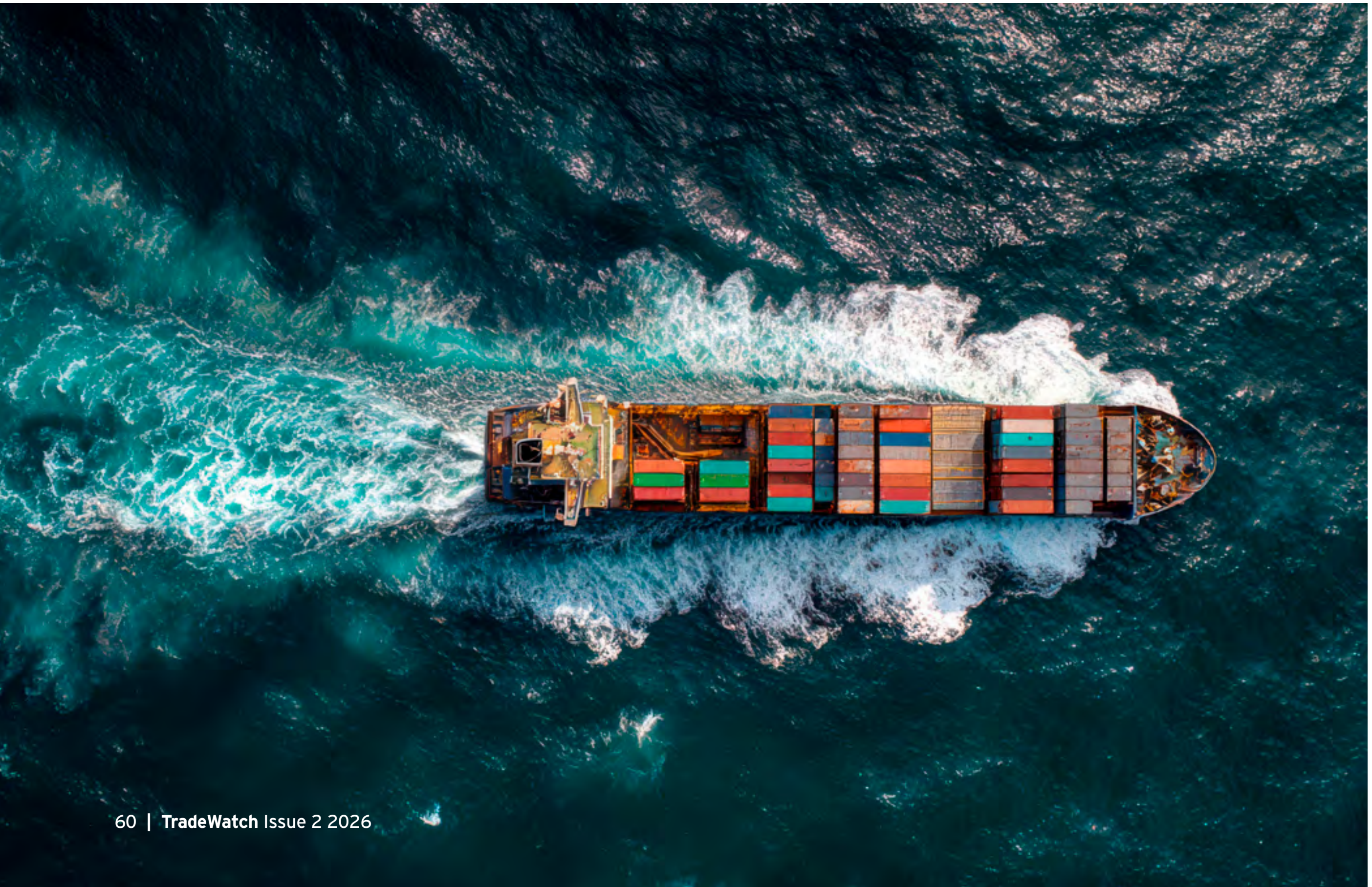
Sugar tax

There has been discussion about implementing a tax on sugary drinks, also called a lemonade tax. The example typically cited as a model is the sugar tax in the United Kingdom. A German legislative proposal is pending, and the government coalition is moving toward implementation. Media reports suggest that implementation may be planned from 2028, although the latest budget law draft of 2027 did not include the measure.

Plastic tax

Germany has been financing the EU Plastic Levy (a contribution to the EU budget) from its general national budget. Given the rising expense, the plan is to pass the cost to the "polluters." Several

concepts for the scope of the tax are under discussion and for some time, the wording referred to the implementation of a new "levy." That has changed with the 2027 budget law draft, which now refers to revenue generated by a plastic tax. The technical difference is that a levy must be purposed for specific use, while a tax is paid to the general budget and the income can be flexibly used by the government. Although a legislative draft is pending, the measure could have similarities with the existing Plastic Packaging Taxes in the United Kingdom and Spain. As such, the new tax would impact almost all trade flows and products, as plastic-related packaging materials are widely used for product, service and transport packaging in all areas of business-to-business and business-to-consumer transactions. All businesses must closely follow the development, as implementation could occur on short notice and require significant implementation and operational efforts. Also, for this tax, clean data will be fundamental – meaning that global exporters sending packaged goods or packaging materials to Europe which are designated to be placed on the German market will likely be required to provide information about exact amounts of plastic packaging and recycled contents. It remains unclear whether aspects like recyclability could be relevant. The budget already is planning revenue of EUR1 billion for 2027.



Local excise taxes

Cities and counties are under financial stress. There is a large variety of taxes that exist, are newly implemented or raised on a local level. Most often, these taxes are connected to specific purposes or business situations. The most common types of taxes are city taxes, pleasure taxes and resource-related levies. The most prominent example, however, is the implementation of local packaging taxes in an increasing number of cities. The concept is to tax the sale of food and drinks for immediate consumption in single-use packaging. This highlights the need to monitor new measures at the federal, state and local levels, supported by a clear understanding of potential tax exposure, and documentation of where a business conducts specific activities or handles certain goods or materials. This will help businesses to identify relevant changes early and take necessary measures. ■

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EU Customs Union reform: how roles and responsibilities in the supply chain are changing

All references in this analysis relate to the current draft proposal for a Regulation of the European Parliament and of the Council establishing the Union Customs Code and the European Union Customs Authority, and repealing Regulation (EU) No 952/2013. Following the political agreement reached on 26 March 2026, the text remains pending formal adoption and publication in the Official Journal of the European Union. Elements of the draft may therefore be subject to adjustment before final publication.

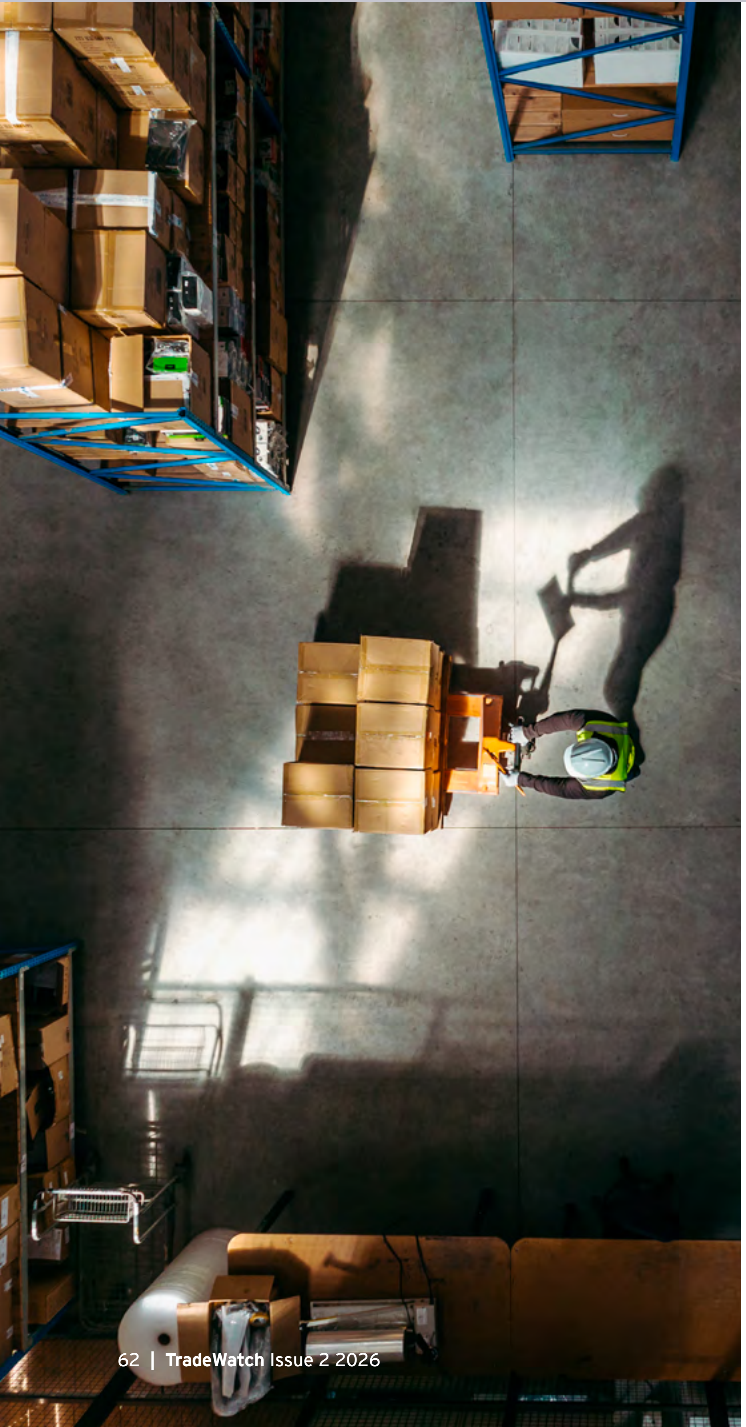
The reform of the European Customs Union, proposed by the Commission on 17 May 2023, represents the most ambitious overhaul of the European Union (EU) customs system since its establishment in 1968. Once the final text of the reform is formally adopted, a set of fundamental provisions will come into force that substantially changes the roles and responsibilities of all supply chain operators: importers, exporters, e-commerce platforms, carriers and customs representatives. This article sets out the changes ahead and their operational implications for businesses.

The current customs system is no longer fit for purpose in the reality of modern international trade: European customs authorities do not yet operate as a single, unified system.

Economic operators must contend with 27 national customs administrations and more than 111 individual IT systems that are frequently not interconnected. The resulting fragmentation generates costs, uncertainty and opportunities for regulatory arbitrage.

Compounding this is the unsustainable pressure from e-commerce: it is estimated that in the course of 2025, approximately 5.9 billion low-value items entered the EU, over 90% of them from China. In 2022, customs declarations related to e-commerce already accounted for 73% of all import customs declarations while representing just 0.5% of the total value of imports.

In this context, one of the principal shortcomings identified under the current legislation is that customs obligations fall predominantly on parties such as the customs declarant or the carrier – parties that often do not possess all the information necessary to confirm full compliance with customs,



tax and regulatory requirements. To address this misalignment between responsibility and effective control of the transaction, the proposed reform aims, to the greatest extent possible, to shift the locus of compliance obligations – both customs and non-customs – onto importers and exporters (i.e., the parties who determine the commercial terms of the transaction and who hold the information that is relevant for customs purposes).

To that end, the proposal extends the establishment requirement in the customs territory of the Union not only to exporters and declarants (i.e., those in whose name a customs declaration is lodged) but also to other actors in the supply chain.

Why the reform is necessary

To better understand the impact of the proposed reform on economic operators, it is worth noting that under the current framework, the establishment requirement is expressly provided for in relation to the export of Union goods, but not for the import or re-export of non-Union goods.

In particular, under the current rules:

- On the import and re-export side of non-Union goods, any company – regardless of its place of establishment – may act as importer or re-export non-Union goods, provided that the customs declarant is a person established in the customs territory of the Union. As a result, where the importer is established in the customs territory of the Union, it may currently choose between a direct and an indirect customs representative. Where the importer is not established in the customs territory of the Union, it is required to use an indirect customs representative established in that territory.
- On the export side, the role of exporter of Union goods for customs purposes is reserved to companies established in the customs territory of the Union that have the power to determine, and have determined, that the goods are to leave that customs territory, or that are party to the contract by virtue of which the goods are to leave that customs territory (see Article 1(19) of Commission Delegated Regulation (EU) 2015/2446 of 28 July 2015).

The proposed reform of the Union Customs Code instead seeks to strengthen supply chain transparency and to allocate customs compliance responsibilities more clearly to the operators that exercise effective commercial control over transactions, while in exchange providing broader access to simplifications and procedural facilitations.

In this context, Title II of the proposal redefines the personal scope of the framework by providing a comprehensive regime for the figures of the importer, the deemed importer and the exporter – and specifically introduces a paradigm shift from operative figures (the declarant and the carrier) to those that are economically responsible (the importer, the deemed importer in the case of distance sales and the exporter).

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

The new roles of actors in the supply chain

Consistently with this approach, the proposal provides that importers and exporters must, as a general rule, be established in the customs territory of the Union and registered with the Member State of establishment — with a single registration valid across the entire customs union — subject to specific expressly provided derogations. The objective is to enable customs authorities to identify the responsible party with greater certainty and to enhance the effectiveness of control activities and risk management.

Of particular significance is the introduction of the concept of the "deemed importer," designed to directly engage e-commerce platforms and other digital intermediaries that facilitate the sale of goods to consumers in the Union. Compared to the existing legal framework — in which such entities are essentially external to import customs formalities — the reform assigns them specific declaration and compliance obligations. Acting as deemed importers, platforms will be responsible for transmitting to customs authorities the information required for the release for free circulation of goods, as well as the data they already collect for the purposes of discharging their value-added tax (VAT) obligations.

It is worth recalling that under the current system, an importer may be any person with legal capacity — whether or not established in the customs territory of the Union — provided they use an indirect customs representative established in that territory.

The proposed reform introduces a fundamental change: the "importer" becomes a separately defined concept (Article 5(12) of the proposal: "any person who has the power to determine and has determined that goods from a third country are to be brought into the customs territory of the Union") who:

- Is in the EU and registered with the Member State of establishment, with a single registration valid throughout the entire customs union
- Is responsible not only for the payment of duties (as the declarant is today) but must also "ensure that goods entering or leaving the customs territory of the Union comply with other relevant legislation applied by the customs authorities, and provide, keep and make available adequate records evidencing such compliance" as well as comply with "any other obligation under the customs legislation that falls on the importer" (Article 20 of the proposal)

This represents a concentration of responsibility that is currently distributed among the declarant, the importer and the freight forwarder.

Similarly, under the proposed reform, the exporter (whether of Union goods or non-Union goods) is redefined as:

- The operator established in the Union, subject to specific expressly provided derogations, and registered with the Member State of establishment with a single registration valid throughout the entire customs union
- Responsible for "ensuring that goods entering or leaving the customs territory of the Union comply with other relevant legislation applied by the customs authorities, and for providing, keeping and making available adequate records evidencing such compliance" as well as for "any other obligation established under the customs legislation"

The proposed reform:

- Elevates the definition of "exporter" to the level of primary legislation (Article 5(14) of the proposal)
- Makes the exporter — in the same way as the importer — the party responsible for compliance with non-customs legislation as well
- No longer draws a distinction between the export regime for Union goods and the re-export regime for non-Union goods (which is generally required to account for special procedures — such as customs warehousing — without payment of customs duties and other tariff measures)

Amendments are also proposed to expressly provide that an indirect customs representative acting in its own name but on behalf of an importer or exporter is to be treated as the importer or exporter for the purposes of Articles 20 and 22 of the proposed reform respectively. The proposal clarifies that customs representatives acting in indirect representation of importers or exporters will not only be required to be established in the customs territory of the Union but will also bear responsibility

for compliance with other legislation applied by the customs authorities (e.g., product safety, Carbon Border Adjustment Mechanism, EU Deforestation Regulation, forced labor, fluorinated greenhouse gas (F-gas), international sanctions).

Finally, the role of the carrier is also structured with greater precision. The carrier is required to transmit advance cargo information before the arrival of goods in the customs territory of the EU and to link that information to the data already submitted by the importer.

The deemed importer: a revolution for e-commerce platforms

To enable customs to meet the challenges of cross-border e-commerce, it is proposed that e-commerce platforms be designated – in place of the consumer – as "deemed importers" and that they become liable for the customs debt, which would arise at the moment the buyer makes payment to the e-commerce operator, in a manner analogous to the treatment already in place for VAT purposes. To simplify the burden associated with this obligation, e-commerce intermediaries may be authorized to determine the import duty due and to discharge the customs debt on a periodic basis.

Practical implications for businesses

The reform of the EU Customs Union is not merely a technical update to customs clearance procedures; it is a profound rethinking of the liability model in the cross-border supply chain. As the Commission states, transparency is the overarching guiding principle of the reform: the more transparent operators are with customs regarding their supply chains, the less the need for on-the-ground intervention. This shift in philosophy redefines the relationship between businesses and customs authorities in a structural way, with new actors established in the Union customs territory.

The first priority for businesses is to map their position against the new legal definitions. Importers, exporters and customs representatives must verify whether they satisfy the new requirements and obligations arising from the proposed reform. They will also need to invest much more in the quality of customs data and its integration with other tariff and trade policy measures to reinforce the governance of customs processes and related activities. This will help them address new challenges while also benefiting from the simplifications available for the reliable economic operators. ■

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

Customs authorization holders to review conditions

There are two significant changes for customs authorization holders in the European Union (EU) that require consideration.

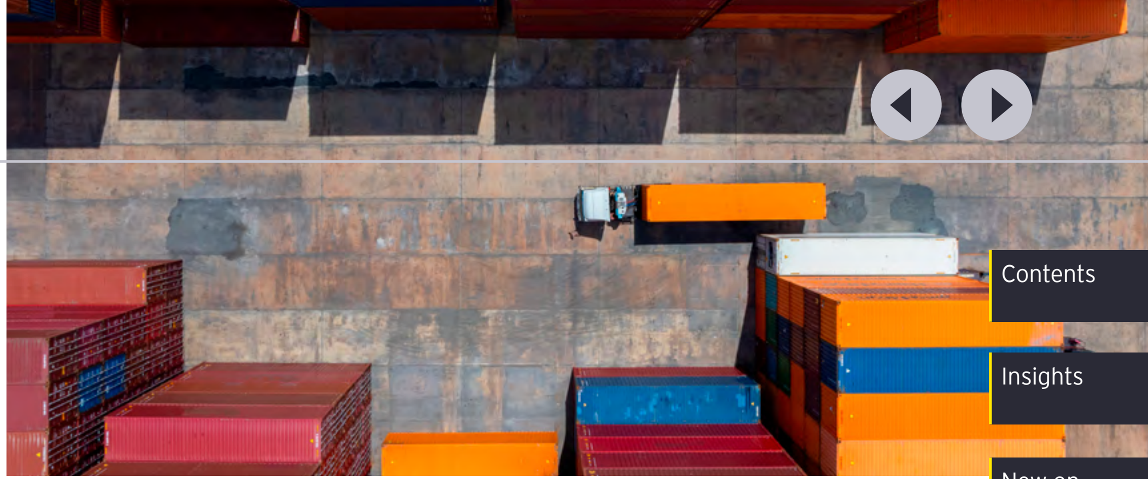
AEO – Customs Cooperation to Detect, Report and React to Suspicious Activities

The European Commission has published a new document, AEO – Customs Cooperation to Detect, Report and React to Suspicious Activities, that aims to strengthen cooperation between customs authorities and economic operators in the fight against illicit trade, drug smuggling and organized crime.

The initiative builds on the existing partnership between Authorized Economic Operators (AEOs) and customs authorities; however, importantly, it is intended for all economic operators, regardless of whether they hold AEO status. The underlying mechanism is that most customs authorizations and simplifications in the EU refer to the same (or at least part of the same) legal criteria and conditions.

The objective is to encourage the implementation of systems of internal and external whistleblowing and closer cooperation between customs administrations and businesses, enabling suspicious activities to be identified more quickly and criminal conduct to be prevented earlier. Businesses are encouraged to report potential concerns to the authorities.

To achieve this, EU Member States can adopt a phased approach to intensify information exchange, commencing with initial steps such as signing Memoranda of Understanding (MoU) with trusted traders. Relevant legal settings, including the General Data Protection Regulation (GDPR) rules, must be taken into account so that information exchange activities are conducted in a lawful and secure manner.



The European Commission emphasizes that AEOs (and customs authorization holders) are already subject to specific obligations, as outlined in the Union Customs Code (UCC) and the existing AEO Guidelines, to prevent and detect irregularities and to inform customs authorities of any compliance difficulties or factors that may impact the continuation or content of their authorization. An applicant or authorization holder must have an administrative organization that corresponds to the type and size of business; is suitable for the management of the flow of goods; and has internal controls capable of preventing, detecting and correcting errors and of preventing and detecting illegal or irregular transactions.

Also, the applicant should confirm that relevant employees know to inform customs authorities if compliance issues are discovered. The guidance establishes procedures for informing customs authorities of such issues. Therefore, the applicant or authorization holder should have procedures for notifying customs of compliance issues and an appointed person responsible for notifying customs authorities. Formal instructions should be addressed to employees involved in the supply chain to prevent possible difficulties in complying with customs requirements. All identified issues should be reported to the appointed responsible person(s) and/or his or her replacement(s). In that context there is already a significant list of items to be reported in the current Annex 4 of the established AEO Guidance.

While the above reflects existing law and soft law, customs authorities often have not investigated the structural and procedural organization and protocols in place in great detail, and many current authorization holders would likely face difficulties in evidencing substance at the level indicated above.

In addition, the new guidance now includes further examples of suspicious behaviors to be reported to the authorities, e.g., "vehicles turning aimlessly or stopping in unusual places" or "a member of staff who suddenly has a very high standard of living for no reason." [RC47.1][MS47.2]Many of the described situations stem from "hybrid warfare" situations and are aimed at countering foreign intelligence services or criminal behaviors. Numerous potentially suspicious situations are very sensitive in nature, and businesses will be in a delicate legal position when determining what and how to report without exposing themselves to a breach of other existing laws.

The document highlights that relevant information is shared in a timely manner so that customs, (other) law enforcement and competent authorities can take prompt action to address potential threats. Therefore, AEOs and authorization holders are encouraged to report suspicious activities as quickly as possible, using the designated secure methods to facilitate swift and effective actions.

For the first time, the European Commission uses the term Customs Risk Management System (CRMS) in a prominent way, which is basically the "customs module" of the existing concept of Tax Compliance Management System.

The new guidance emphasizes that security is a partnership process. Customs authorities, among others, are encouraged to share with trusted traders relevant information and knowledge, such as current criminal trends, modus operandi and risks, and where possible and permitted by legislation (including on data protection and cybersecurity), other actionable information to support these traders in concrete detection activities.

Customs authorities should collaboratively assess the adequacy of an operator's internal controls to efficiently identify illegal or irregular transactions, thereby enforcing regulations in partnership rather than in isolation. Through joint efforts, both authorities and AEOs/customs authorization holders can work toward sustainable compliance and the integrity of the authorization status, fostering a proactive rather than reactive environment within the international trade framework.

Economic operators should be encouraged to identify and refer suspicious activities without fear of punishment or unnecessary delays to their operations as a result of their referral. Customs needs to work with economic operators as partners in this process, but it remains to be seen how this works out in practice.

The guidance is not legally binding. It has been developed as a practical framework to facilitate cooperation and to help bridge the transition toward the provisions currently being discussed as part of UCC reform.

Businesses should familiarize themselves with the new expectations as customs authorities are expected to conduct more detailed reviews and require more rigorous, impactful risk management measures. It is advisable to test current AEO and other customs authorizations against the standards proactively to make sure improvements can be taken well in advance before the authorities take a closer look.

The German self-assessment questionnaire for authorization holders

While the legal criteria and conditions to apply for and maintain a customs authorization are based on EU law and the EU guidance documents, each EU Member State through its national authorities has specific requirements on how to collect and test information. In Germany, one of the key tools in the process is the German national version of the self-assessment questionnaire.

The German customs administration has made changes to the questionnaire. While there are numerous changes through document restructuring and sole wording changes, key content changes include:

More detailed information regarding:

- Business locations and customs structural organization
- IT systems and data management
- Internal control systems
- Prohibitions and restrictions/export controls related details
- Financial solvency and supply chain security

Newly introduced questions include:

- Server locations and use of cloud services
- Newly established entities
- Risk of impending insolvency

Another key change is that individuals that have to be named due to their function now have to provide their personal Tax ID to allow the customs authority to more efficiently run data checks with the tax authorities.

This reflects a more comprehensive assessment of an operator's organizational, IT, compliance and financial environment while also taking greater account of cybersecurity, data hosting arrangements and business continuity considerations.

While customs authorities have indicated that no immediate rework and resubmission of self-assessments is required (aside from providing details about Tax IDs) it is now clear which information authorization holders need to include or detail in their next rounds of "monitoring" of their authorizations. All self-assessments should be revisited to incorporate the new standard. It is important to remember that it is the legal obligation of any authorization holder to inform the customs authorities proactively about any relevant change that could impact the authorizations applied for or granted. Basically, if customs authorities raise questions and request an update (which they typically do on a three-year cycle) and there is something to report, this may indicate that continuous authorization monitoring was not previously effective. Effective authorization monitoring is an important – and often underestimated – business resilience measure. It helps authorization holders preserve benefits the corporation may rely on to run efficient, faster and cost-saving simplified customs procedures. ■

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts
Back to Welcome

Procedural rationality in customs enforcement: the South African Supreme Court of Appeal clarifies the Revenue Authority's decision-making obligations in *QI Logistics v CSARS*

Introduction

On 3 July 2026, the Supreme Court of Appeal (SCA) delivered judgment in *QI Logistics (Pty) Ltd v Commissioner for the South African Revenue Service* (180/2025) [2026] ZASCA 96. The case provides important guidance on how the South African Revenue Service (SARS) must exercise its customs enforcement powers and reaffirms key principles of administrative justice in the customs environment.

Although the dispute concerned fuel consignments transported through South Africa under customs transit procedures, the judgment is relevant to clearing agents, customs brokers, freight forwarders, importers, exporters and businesses engaged in cross-border trade. It confirms that while clearing agents remain subject to strict statutory obligations under the Customs and Excise Act 91 of 1964 (the C&E Act), SARS must also act lawfully, rationally and transparently when making enforcement decisions.

The judgment confirms that where traders submit material evidence in response to a customs audit or enforcement process, SARS must be able to demonstrate that the evidence was meaningfully considered and be able to explain why it was rejected.

Background

The dispute arose from fuel imported from Mozambique and transported through South Africa for export to Zimbabwe and Botswana under removal in transit (RIT) and removal in bond (RIB) procedures. QI Logistics, a licensed clearing agent, processed customs declarations for 67 consignments on behalf of another clearing agent. While QI prepared the relevant customs documentation, it did not own, transport or control the fuel after customs clearance.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

In 2019, SARS conducted an audit of fuel transported through South Africa during the relevant period and requested supporting documentation to demonstrate that the fuel had been duly exported. QI responded by providing extensive customs acquittal documentation and representations intended to prove that the consignments had left South Africa in accordance with the declared customs procedures.

Despite this, SARS issued a letter of demand requiring QI to pay approximately ZAR35 million, comprising customs duties and an amount claimed instead of forfeiture under the C&E Act. SARS' position was that certain customs entries lacked endorsements recording arrival and exit at the relevant border posts, so the fuel could not be regarded as properly acquitted.

QI challenged the decisions, arguing that SARS had failed to engage meaningfully with the documentation submitted and had not provided adequate reasons for rejecting its evidence. Although the High Court dismissed the application, the SCA ultimately upheld the appeal and remitted the matter to the Commissioner for reconsideration.

The statutory obligations of clearing agents remain strict

An important aspect of the judgment is that the SCA did not take a relaxed approach to the obligations imposed on clearing agents.

The Court reaffirmed that licensed clearing agents perform more than an administrative function. The C&E Act permits only licensed clearing agents to make entries and submit bills of entry on behalf of principals. However, by acting in that capacity, a clearing agent assumes significant statutory responsibilities relating to customs compliance. In particular, the C&E Act renders a clearing agent liable for duty on goods entered for removal in bond and requires the agent to obtain, retain and produce documentary proof that the goods were duly exported and properly acquitted.

The C&E Act further provides that bonded goods may not be diverted from their declared destinations without the permission of the Commissioner. If valid proof of acquittal cannot be produced, the goods may be treated as unlawfully diverted. The C&E Act also provides a basis for a clearing agent to be liable for a principal's obligations unless the agent can demonstrate that it was not party to the non-fulfillment, reported the non-compliance and took reasonable steps to prevent it.

The Court emphasised that a clearing agent cannot avoid liability simply because it lacks ownership of the goods or has limited commercial involvement in the transaction.

The judgment serves as a reminder that clearing agents must continue to maintain comprehensive customs records and robust compliance procedures. However, while clearing agents bear significant statutory obligations, SARS must still exercise its powers in accordance with constitutional and administrative law requirements.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Procedural rationality: the central issue

The key issue before the SCA was whether SARS had exercised its powers rationally when deciding to hold QI liable for customs duties and when demanding an amount in lieu of forfeiture.

The Court considered the matter under both the constitutional principle of legality and Promotion of Administrative Justice Act 3 of 2000 (PAJA). PAJA permits a court to review administrative action where the action is not rationally connected to the purpose for which it was taken, the purpose of the empowering provision, the information before the administrator or the reasons given for the decision. The SCA noted that these principles are aimed at preventing arbitrary or capricious exercises of public power and require a rational connection between the information before the decision-maker and the decision ultimately taken.

The Court carefully distinguished between substantive rationality, procedural rationality and procedural fairness. Procedural rationality concerns whether the decision-making process is rationally connected to the purpose of the power being exercised, the information before the decision-maker and the reasons provided. Substantive rationality, by contrast, concerns the rationality of the outcome itself. Procedural fairness addresses a different question — namely whether an affected person was afforded a proper opportunity to participate in the process and be heard before a decision was taken.

Two principles guide the rationality inquiry: the duty to engage with relevant material and the limited role of a reviewing court. Drawing on Constitutional Court authority, the SCA emphasized that both the process by which public power is exercised and the resulting decision must be rational.

The SCA noted that public power must be exercised through a rational process. A failure to consider relevant information may render a decision reviewable even if the ultimate conclusion could potentially be justified.

Importantly, the Court stressed that judicial review is not an appeal on the merits. It was not required to determine whether the fuel had in fact been exported or whether SARS might ultimately reach the same conclusion after reconsideration. The question was whether the record demonstrated a rational path from the evidence submitted by QI to the decisions taken by SARS. The SCA found that it did not.

QI submitted detailed representations and substantial acquittal documentation in response to SARS' notices of intention. However, the final letter of demand merely repeated that certain entries lacked arrival and exit endorsements. It did not explain whether SARS had evaluated the additional documentation, why the evidence was insufficient, or whether it was considered incomplete, unreliable or legally inadequate.

The Court held that SARS was not required to accept QI's documents, but it was required to demonstrate that it had considered them and to explain why they failed to satisfy the statutory requirements. Without such an explanation, there was no demonstrated connection between the information before SARS, the reasons provided and the conclusions reached.

The separate discretion to demand an amount instead of forfeiture under section 88(2)

A further significant aspect of the judgment is the Court's clarification of the Commissioner's power under the C&E Act to demand an amount in lieu of forfeiture.

The SCA held that liability for customs duties and a forfeiture-related demand are distinct legal inquiries. While liability for duties may arise once the statutory requirements have been met, the C&E Act confers a separate discretionary power to demand forfeiture of the relevant goods, or an amount instead of forfeiture. The Commissioner must independently determine whether the statutory requirements for forfeiture exist and whether it is appropriate to exercise the discretion in the circumstances.

Relevant considerations may include the nature of the alleged contravention, the role of the clearing agent, explanations provided, the prejudice suffered by the fiscus and whether the resulting financial burden is proportionate.

The Court found no indication that SARS had conducted this separate inquiry. Instead, the decision to demand an amount instead of forfeiture appeared to flow automatically from the finding of duty liability. This was inconsistent with the statutory framework and rendered the decision irrational.

Procedural fairness and the duty to provide reasons

The judgment demonstrates the important distinction between procedural rationality and procedural fairness. Although the Court found that the decision to hold QI liable for customs duties was reviewable on grounds of procedural irrationality, it found that procedural fairness assumed particular significance in relation to the forfeiture-related demand. Unlike the duty liability, which may arise by operation of the C&E Act once the statutory requirements are fulfilled, the forfeiture provisions of the C&E Act confer a separate discretionary power on the Commissioner. QI was entitled to a proper opportunity to make representations directed specifically at whether the Commissioner should exercise that discretion. The SCA found that no such opportunity had been provided.

The Court further attached considerable significance to SARS' failure to provide reasons for the demand issued. Following the letter of demand, QI requested reasons explaining why its acquittal documentation had been rejected and why an amount in lieu of forfeiture had been imposed. SARS provided no response.

The SCA reiterated that reasons for issuing a demand, accountability and rational administration. They enable affected parties to understand the basis of a decision and allow a reviewing court to assess whether the decision-maker acted lawfully. Under PAJA, the failure to provide adequate reasons may give rise to a presumption that the decision was taken without good reason.

The Court observed that if an administrator fails to provide adequate reasons after a proper request has been made, it may be presumed, in the absence of proof to the contrary, that the administrative action was taken without good reason. The Court regarded SARS' failure to furnish reasons as particularly significant because QI had specifically requested clarification as to why the acquittal documentation was regarded as insufficient and why an amount in lieu of forfeiture had been imposed.

The Court also rejected SARS' attempt to provide more detailed explanations during the litigation itself. Relying on established authority, it confirmed that an irrational administrative decision cannot ordinarily be rescued through rationalization after the fact. The legality of a decision must be assessed by reference to the contemporaneous record and the reasons that existed when the decision was made.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

The Court's remedy

Having found that both the duty assessment and the forfeiture-related demand were procedurally flawed, the SCA considered the appropriate remedy. The Court noted that PAJA confers broad powers on reviewing courts to grant a just and equitable remedy. However, substitution of an administrator's decision remains an exceptional remedy, and remittal will ordinarily be preferred where the administrator has not yet properly performed the evaluative task entrusted to it by statute.

The Court found that it was not in as favorable a position as SARS to assess the customs documentation, determine whether the consignments had in fact been properly acquitted, or decide whether a forfeiture-related demand should ultimately be imposed. Furthermore, the defects identified by the Court related to the rationality of the decision-making process rather than the inevitability of any particular substantive outcome.

The Court held that remittal was the appropriate just and equitable remedy.

Key insights from the judgment

The judgment provides several important clarifications for customs administration and administrative law:

- Licensed clearing agents remain subject to extensive statutory obligations under the C&E Act.
- SARS must demonstrate that it has considered relevant evidence before reaching an adverse decision, failing which the decision may be vulnerable to review under the principle of legality and under PAJA.
- Procedural rationality and procedural fairness are distinct concepts. A decision-maker may act irrationally by failing to engage with relevant information, while a separate duty arises to afford an affected party an opportunity to be heard where a discretionary power is exercised.
- A forfeiture-related demand under the C&E Act is not an automatic consequence of duty liability and requires an independent exercise of discretion.
- Administrative decisions must be justified by contemporaneous reasons and cannot ordinarily be rescued through ex post facto rationalization during litigation.

Implications for business

This judgment contains several practical lessons for businesses involved in international trade and customs compliance.

Clearing agents remain subject to extensive statutory responsibilities. The decision does not reduce the obligation to retain reliable acquittal documentation and maintain sufficient records to demonstrate compliance with customs procedures.

SARS must meaningfully engage with evidence submitted during audits and enforcement processes. Where representations and supporting documents are provided, the decision-making record should reflect that the information was considered and explain why it was accepted or rejected.

Businesses should distinguish between duty liability and forfeiture-related demands. A demand for forfeiture is not automatic and requires a separate, independent exercise of discretion by the Commissioner. Taxpayers should therefore consider whether they have been afforded an opportunity to make representations on that specific issue.

This judgment reinforces the importance of requesting written reasons where SARS issues an adverse decision. The adequacy of those reasons may become critical if the matter proceeds to judicial review.

More broadly, the *QI Logistics* case confirms that while SARS possesses extensive powers to protect the fiscus and enforce customs compliance, those powers must be exercised in accordance with the principles of legality, rationality and procedural fairness. The decision is likely to become an important authority in future customs disputes concerning the adequacy of SARS' reasoning and the manner in which its enforcement powers are exercised. ■

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The EU Forced Labor Regulation: from a human rights concern to a market compliance requirement

Regulation (EU) 2024/3015 – implications for Foreign Trade, Customs Operations and Supply Chain Compliance

Forced labor becomes a compelling issue

For a long time, forced labor was primarily viewed as a human rights and reputational issue. Legally, however, it was by no means unregulated: The Non-Financial Reporting Directive (NFRD, in effect since 2017), the European Union (EU) Conflict Minerals Regulation (mandatory since 2021) and the German Supply Chain Due Diligence Act (LkSG, effective since 2023) have contained binding requirements – some related to reporting, others to due diligence – pertaining to forced labor. The EU Battery Regulation (EUBR) also provides for specific supply chain due diligence obligations effective 18 August 2027.

With Regulation (EU) 2024/3015 – the so-called EU Forced Labor Regulation (EUFLR) – this becomes a critical issue under foreign trade and market access law. The regulation integrates environmental, social and governance (ESG) compliance and supply chain transparency with a standalone market access instrument. What is new about the EUFLR in this regard is not the subject matter itself, but the regulatory approach: a product-specific market ban rather than mere due diligence or reporting obligations. The regulation applies to transactions within the EU as well as to foreign trade. The EUFLR thus falls directly within the scope of trade compliance and is also monitored by customs authorities as part of customs clearance procedures.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

History and legal status

The regulation was preceded by a legislative process lasting several years. It was published in the Official Journal of the EU on 12 December 2024, and entered into force the following day. However, the regulation will not take full effect until after a three-year transition period. The key milestones:

Date	Event
13 December 2024	Regulation enters into force (day after publication in the Official Journal).
Through 14 December 2025	Designation of the competent national authorities by the Member States (in Germany: BAFA).
26 June 2026	Publication of the Commission's guidelines.
30 June 2026	Launch of the central EU portal against forced labor and the EU risk database – preparatory phase for all stakeholders (the portal itself is still under development, however).
14 December 2027	Prohibitions take effect and official enforcement begins; the ICSMS Forced Labor Module is expected to be available to authorities by then.

Legal nature

The EUFLR is a directly applicable EU regulation that does not require further transposition into national law. It is based on the dual competence of Article 114 TFEU (internal market) and Article 207 TFEU (common commercial policy) and thus deliberately covers both the internal market and the external trade dimension. In addition, it amends the Whistleblower Directive (EU) 2019/1937.

Accompanying national legislation is required to define the powers for implementation and enforcement. In addition to designating the competent national authorities, this includes, in particular, national provisions on sanctions as well as the authorities' powers of intervention, investigation and enforcement, including coordination with customs authorities. In Germany, no accompanying legislation has yet been enacted.

Regulatory context

Foundations in international law

The EUFLR builds on the established definition of the International Labour Organization (ILO): forced labor is any work or service that is exacted from a person under the threat of a penalty and for which the person has not offered themselves voluntarily – including child forced labor. Key references are ILO Convention No. 29 (1930), including the 2014 Protocol, and Convention No. 105 (1957), both of which have been ratified by all EU Member States. The ILO indicators are used to identify specific cases.

EU level and German law

The regulation is part of a "new wave" of EU supply chain regulations. These include the requirements of the Corporate Sustainability Reporting Directive (CSRD) as a transparency and reporting regime, as well as the well-known enforcement regimes: the Corporate Sustainability Due Diligence Directive (CS3D), the EU Deforestation Regulation (EUDR), the EU Battery Regulation (EUBR) and the EU Conflict Minerals Regulation. Unlike these, however, the EUFLR does not establish a new reporting or due diligence regime or a limited product catalog, but rather a product-specific market ban. In Germany, the LkSG, effective 1 January 2023, already uses the same ILO definition in Section 2(2)(3). The LkSG is to be replaced by a CS3D implementation law (Law on International Corporate Responsibility); the CS3D implementation deadline was extended to 26 July 2027, by the "stop-the-clock" directive.

The European Commission also published guidelines on the EUFLR on 26 June 2026 (Guidelines on the application of Regulation (EU) 2024/3015 on prohibiting products made with forced labor on the Union market).

Objectives and regulatory approach

The stated objectives are to protect human rights in global supply chains, improve the functioning of the EU single market and promote a level playing field. This is achieved through a market ban combined with a risk-based enforcement approach: authorities focus their investigations on products, supply chains and source regions that pose a particularly high risk. This approach is supported by the central EU portal against forced labor – available since the end of June 2026 – the EU risk database and the newly created Union Network Against Forced Labor Products for coordinating national authorities. Decisions made by an authority are valid throughout the EU under the principle of mutual recognition.

Scope of application

- **Subject matter:** All goods, regardless of industry, origin or place of production–expressly including goods manufactured within the EU.
- **Scope:** Covers all stages–raw material extraction, harvesting, production, manufacturing and processing at every stage of the supply chain, including components and intermediate products.
- **Personal scope:** All economic operators, whether or not based in the EU and regardless of company size – there is no small and medium-size enterprise (SME) exemption and no de minimis threshold.
- **Transactions:** The placing on the market, making available, sale (including online trade) and export are prohibited. Services and transportation services are generally not covered due to the explicit reference to "products." However, the treatment of production or distribution-related services remains to be seen; goods that have already reached end consumers do not need to be recalled.

Obligations for action in line with the phased entry into force

Although the EUFLR does not establish a separate statutory duty of care; it effectively expects companies to conduct a risk-based analysis of their supply chains and to be able to provide authorities with robust documentation of the measures taken to prevent forced labor. A mere comparison with the risk database to be provided by the EU in the future will generally not suffice for this purpose.

Rather, companies must take into account all publicly available and relevant risk indicators, particularly information from international organizations, scientific studies, media reports and publications by nongovernmental organizations.

Reports from organizations such as the ILO and the OECD, as well as from Amnesty International, Human Rights Watch and Verité, are of particular importance, as such sources are frequently used by authorities as a basis for risk analyses.

The intensity of the review depends on the respective country, industry and product risks. Until the risk database is established, companies may provisionally refer to the U.S. Department of Labor's (DOL) so-called TVPRA list (Trafficking Victims Protection Reauthorization Act list), which also contains helpful guidance on downstream risks. The list details combinations of goods and countries of origin where US authorities have reason to believe that they are produced using forced labor and/or child labor.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

While self-declarations and contractual assurances may suffice for suppliers in low-risk regions, significantly more extensive verification measures will be required for high-risk countries and sensitive raw materials. These include, in particular, detailed supply chain traceability, analysis of production sites, independent audits and verification of the origin of raw materials and intermediate products.

The Commission also makes it clear that conventional social audits alone are often insufficient to reliably detect forced labor. Companies should therefore establish ongoing monitoring that systematically tracks and evaluates official warnings, NGO reports and relevant media publications. In practice, the EUFLR is thus evolving into a regime that, while not legally a comprehensive due diligence law, will be virtually impossible to comply with successfully without a robust and documented supply chain compliance system.

The administrative procedure consists of two stages: During the preliminary investigation (Art. 17), the authority requests a statement; companies have approximately 30 business days to submit their statement and provide supporting evidence. If the reasonable suspicion persists, the main investigation (Art. 18) follows, which may include on-site inspections. The authority is required to make a decision pursuant to Art. 20 within nine months of the initiation of the investigation or to discontinue the proceedings; this is a best-efforts deadline rather than a strict, non-extendable deadline. A lack of cooperation may be taken into account to the detriment of the affected economic operator in the authority's assessment.

Cooperation among authorities

The "ICSMS Forced Labor Module," established on the basis of Implementing Regulation (EU) 2026/903, serves as the central digital platform for the exchange of information between the European Commission, national enforcement authorities and customs authorities in the application of the EUFLR. The system coordinates and documents, across the EU, reports of suspected violations, determinations of jurisdiction, investigative measures, administrative decisions, their enforcement and subsequent changes. The module is intended to enable uniform, structured and rapid cooperation among authorities and, in particular, to improve the cross-border tracking of products linked to forced labor. Thus, the ICSMS Forced Labor Module serves as the central technical infrastructure for the practical enforcement of the EU-wide ban on products manufactured using forced labor.

Implications for EU internal and external trade

Intra-EU trade: Since products manufactured within the EU are also covered, the ban applies throughout the single market. Through mutual recognition, a ban decision takes effect in all Member States.

Foreign trade: The regulation establishes both an import and an export ban. The European Commission is responsible for investigations into cases outside the EU, while national authorities handle cases within the EU. Customs authorities at the EU's external border play a central control and interface role in imports and exports — similar to their role under the Carbon Border Adjustment Mechanism (CBAM) and EU Deforestation Regulation (EUDR).

Practical implications: business functions involved

As with most ESG topics, implementation within the company is a cross-functional task. The key functions and their roles:

Function	Contribution to implementation
Purchasing/Procurement	Supplier selection and evaluation, contractual forced labor clauses, data collection along the supply chain
Customs/Trade Compliance	Liaison with authorities regarding imports and exports, tariff classification, coding in customs declarations, and maintaining records for customs authorities
Legal/Compliance	Procedural support, communication with authorities, deadline management, legal protection
ESG/Sustainability	Risk assessment, use of the risk database, integration with LkSG/CS3D
IT/Master Data	Bill of Materials (BOM), origin data, traceability, unified data platform
Board of Directors/ Executive Management	Tone from the top, governance, resource allocation, and definition of escalation and decision-making processes

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Role of the customs function

Under the EUFLR, the customs function is generally not responsible for the initial human rights risk analysis in most companies; however, it plays a central control and governance role within the compliance system. It serves as a key data provider, as it possesses detailed information on products, manufacturers, suppliers, countries of origin and shipment, as well as import and export flows. On this basis, the customs function can validate the results of risk analyses conducted by other business units by cross-referencing them with trade and transaction data available from day-to-day operations and feed the information from operational processes into the central risk analysis.

This cross-check is particularly relevant and should ideally be carried out largely automatically. The process involves verifying whether information in IT systems, supplier declarations or compliance documentation matches the information on customs documents, commercial invoices, shipping documents, packaging, product labels or the goods themselves. Furthermore, the customs function is able to identify changes in trade flows, supplier structures or production sites at an early stage and forward them as potential risk signals to the responsible compliance or ESG functions. Here, too, the (supplementary) integration of IT-based screenings is useful.

As a link between companies and customs authorities, it also plays a key role in communication and coordination in the event of official inquiries or investigations. The customs function typically has the most reliable records of actual goods movements and will therefore often serve as the first point of contact with authorities – at least in day-to-day operations – while the relevant central departments will then take over further processing of the matter. At the same time, the customs function serves as the final operational control authority prior to the import or export of goods, since high-risk products in foreign trade ultimately enter into the economic circuit of the Union or are declared for export only upon submission of a customs declaration. This entails the responsibility to verify compliance with internal EUFLR processes and the existence of the necessary approvals before submitting the customs declaration. Alternatively, integrated processes must ensure that the responsible departments within the company have reliably conducted the necessary checks and identified no unresolved information gaps, inconsistencies or other warning signs. If necessary checks, escalations or documentation are not carried out, there is ultimately a risk that the customs function will declare goods "blindly" and thereby become subject to official investigations itself. For this reason, the customs function also plays a crucial escalation role by urging the relevant departments – in the author's view, also for their own protection – to implement necessary compliance measures and by drawing attention to existing risks. As a result, under the EUFLR, the customs function is evolving into a central control, verification and early-warning authority at the intersection of trade compliance, the supply chain, ESG management and government oversight.

Risks: financial, regulatory and operational implications

- **Financial:** Market bans and orders to remove or dispose of goods already supplied lead to risks of write-offs and destruction; added to this are short-term supply disruptions and resulting damages.
- **Sanctions:** Member States must provide for "effective, proportionate and dissuasive" sanctions; their specific details are set forth in national laws.
- **Operational and reputational risks:** Delivery halts, short-term supply chain realignments a heightened burden of proof in cases of non-cooperation, as well as reputational damage and contractual consequences vis-à-vis customers.

Relevance of US regulations and Section 301 Tariffs

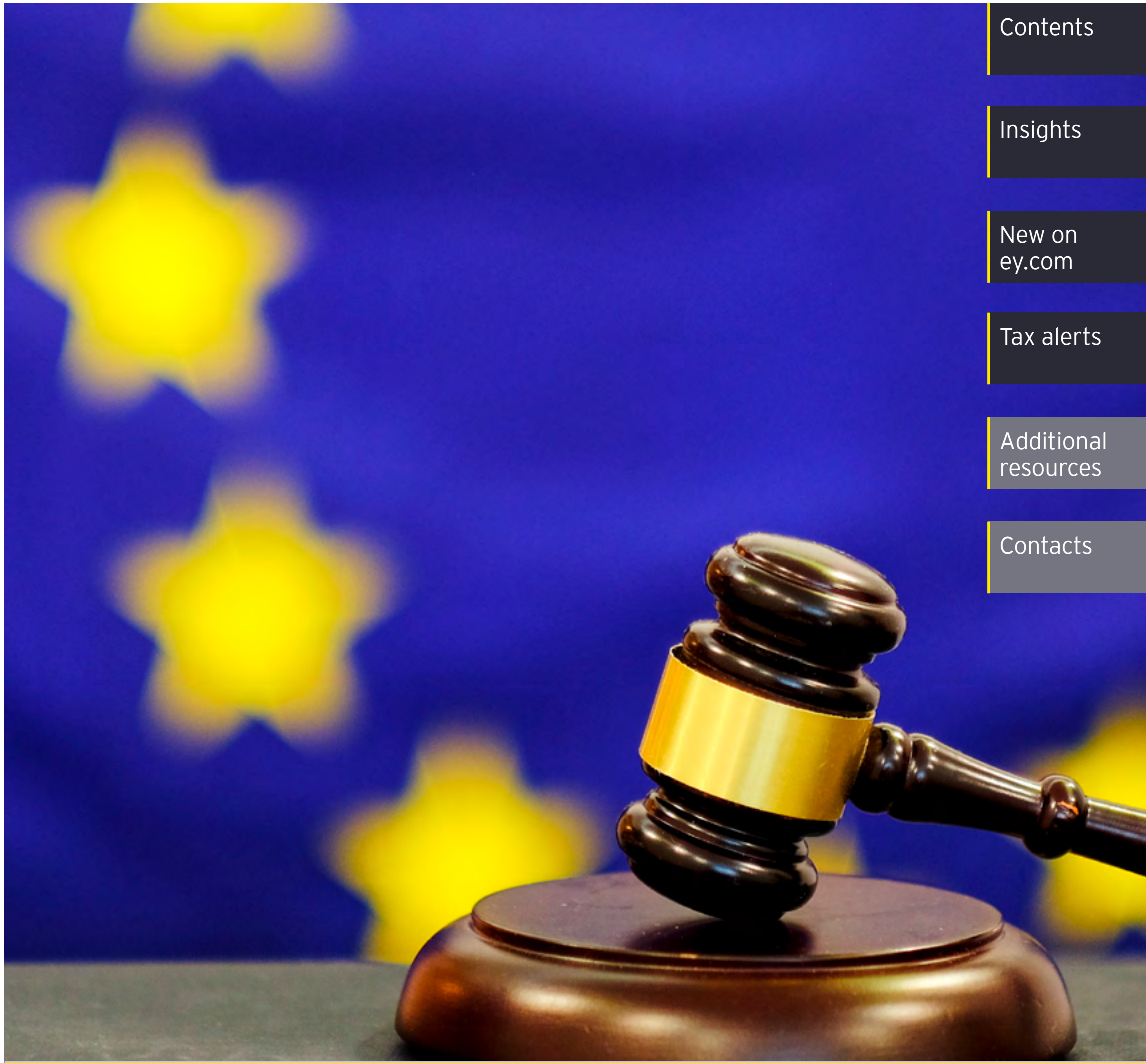
The US has long pursued a strict course of action. Key instruments include the Uyghur Forced Labor Prevention Act (UFLPA), which establishes a rebuttable presumption for goods from the Xinjiang region; and Section 307 of the Tariff Act of 1930, on the basis of which the U.S. Customs and Border Protection (CBP) issues Withhold Release Orders (WROs) and findings.

What is new is the link to trade policy: On the President's directive, the Office of the U.S. Trade Representative (USTR) initiated Section 301 investigations on 12 March 2026, against 60 economies for inadequate enforcement of an import ban on goods produced through forced labor. The determination was issued on 2 June 2026, and the final measure on 23 July 2026. The tariffs have been in effect since 24 July 2026. A tariff rate of 10% was set for the EU. According to the US justification, while a ban does exist, it cannot yet be effectively enforced due to the EUFLR, which will not take effect until December 2027. Economies with no ban are subject to a rate of 12.5%. The EU rate remains within the cap agreed upon in the EU-US trade framework.

It should be noted that, despite the Modern Slavery Act of 2015, the United Kingdom has become the target of Section 301 punitive tariffs because the US criticizes its ineffective implementation. In this regard, it remains to be seen whether and to what extent the Section 301 tariffs on goods originating in the EU could be reduced again in the future.

Conclusion and outlook

The EUFLR marks a paradigm shift: For the first time, there is a Union-wide, product-specific market ban that covers imports, supply on the internal market and exports alike, and applies without any size or sector thresholds. Even though the regulation does not take effect until 14 December 2027, the pressure to act is already real today – not least due to the U.S. Section 301 tariffs. In practice, the principle "no data, no defense" applies: Those who establish transparency and traceability early on and integrate the EUFLR requirements with existing CBAM, EUDR and CS3D processes – ideally via a unified supplier platform and a comprehensive set of contracts – can leverage synergies, reduce a wide range of risks and strengthen the supply chain's resilience. ■



Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

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Excise governance: the tax risk hiding in operational data

Excise is not a routine indirect tax obligation and should be viewed as a live governance issue for impacted Australian businesses.

The drivers are clear. Fuel excise settings have been volatile, reflecting broader supply chain and cost-of-living pressures, with the Australian Taxation Office (ATO) confirming multiple fuel rate changes across 2026, including temporary reductions applying from 1 April and 1 July 2026. From a customs perspective, Australian Border Force notices also confirm indexation and temporary rate reductions for imported "excise-equivalent" goods. As with fuel products, the duty rates applicable to alcohol and tobacco generally increase twice yearly in line with indexation.

From an alcohol perspective, to support industry and consumers the government has temporarily frozen indexation for relevant draught beer tariff subitems for two years from August 2025 and announced an increase in the excise remission cap for eligible alcohol manufacturers from AU$350,000 to AU$400,000 from 1 July 2026.

In contrast, tobacco remains a high-profile enforcement area in Australia. The ATO describes trade in illicit tobacco as a serious offense that deprives the community of revenue and confirms ongoing compliance activity through investigations, audits, seizures, prosecutions and the Illicit Tobacco Taskforce. As of 30 June 2026, the ATO reported 194 illicit tobacco seizures, nearly 499 metric tons seized and destroyed and more than 56.8 million cigarettes seized, and estimated excise duty of AU$822 million associated with those seizures.[1]

1 Australian Taxation Office, Illicit tobacco, Table 1: "Illicit tobacco enforcement – results as at 30 June 2026", accessed July 2026,

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

The control environment for tobacco is also distinct from other excisable goods. There is currently no legal tobacco manufacture occurring in Australia, and tobacco warehouse arrangements have been materially tightened: all tobacco warehouse licenses expired on 30 June 2019 with no renewal, and licensed customs warehouse operators can only store tobacco products on which customs duty has already been paid. This reflects the heightened risk profile of tobacco and the need for controls that protect revenue, manage supply chain integrity and support compliance from the point of importation or manufacture through to final release.

The common thread is that excise taxes remain politically sensitive, revenue significant and operationally complex. In this environment, tax managers are expected to support accurate declarations in circumstances where the data required to calculate the excise liability is often created much earlier in the supply chain.

That is the practical risk.

An excise return is typically lodged by the tax or finance function of the business; however, the accuracy of the return relies on operational data created by production, warehousing, logistics, IT and commercial teams. Relevant data points may include product classification, alcohol strength, excise rates, licensing status, customer and supplier setup, bond registers, manufacturing outputs, underbond movements, stock losses, exports, remissions, destruction events and importantly, the accurate recording of goods delivered into home consumption. Critically, businesses should be able to accurately capture the date that goods are effectively delivered for home consumption, because that timing may affect the applicable duty rate.

These activities form part of the broader excise lifecycle and generate information required to support excise reporting and attest to meeting relevant compliance obligations.

The issue is therefore not limited to whether the final return calculation is reviewed, but whether appropriate controls and risk management procedures are implemented across the broader operational environment. Businesses are expected to be able to demonstrate that the data relied upon for excise calculations is complete, accurate, authorized, reconciled and traceable back to the underlying physical movement or consumption of goods.

The best-practice approach to enterprise-wide excise risk management is to map traditional people, process and technology controls directly to the excise lifecycle. This approach provides a structured framework for assessing whether excise risks are appropriately owned, controlled and evidenced across the business.

From a people perspective, this means confirming accountability, delegation of authority, segregation of duties, training, oversight and incident management. Each key lifecycle activity should have a process owner, an accountable manager, defined escalation pathways and independent review where appropriate.

From a process perspective, this means testing whether documented procedures exist for licensing, manufacture, storage, inventory, movements, duty calculation, return preparation, reconciliations, refunds, remissions, destruction, losses and compliance monitoring. It also means assessing whether exceptions are

investigated, adjustments are appropriately approved and source records are retained. For entities dealing in excisable goods, licenses, permits and permissions are business critical: they support the ability to manufacture, store, move or otherwise deal with goods and should be managed as core operational controls, not administrative afterthoughts.

From a technology perspective, this means understanding the systems, master data, automated controls, reporting logic, user access, manual workarounds and change management controls that support excise reporting. This includes assessing whether excise-relevant data can be traced from source transaction to return, whether manual adjustments are appropriately controlled, and whether report outputs reconcile to operational records.

Cost recovery is also relevant, particularly where excise costs are embedded in commercial arrangements or recovered through pricing, customer charges or internal allocations. However, cost recovery should not drive control design at the expense of compliance. The primary focus should remain on ensuring the correct duty outcome is reported, paid, evidenced and capable of being explained.

These governance principles are consistent with the broader tax risk management expectation that tax risks are identified, controlled and evidenced through effective roles, processes, controls and oversight. The ATO's guidance for goods subject to excise emphasizes accurate rates, correct treatment, records and compliance with licensing and movement obligations.

There is also an important connection between customs and excise controls. Businesses need to understand which regime applies at each stage of the goods lifecycle, correctly identify the point at which relevant goods transition from customs control to excise or excise-equivalent obligations, and discharge corresponding obligations in a timely way. Where customs and excise controls are treated separately, there is a greater risk that gaps emerge at precisely the point where classification, duty rates, permissions, warehousing arrangements and home consumption events need to align.

The call to action is straightforward. Excise taxpayers should review their governance and controls now, with a focus on whether declared excise and excise-equivalent goods (EEG) positions align with actual production, movement, loss, export, destruction or home consumption. Where tax teams cannot trace the return position back to source systems, operational records and physical flows, that should be treated as a live compliance risk. ■

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Korea: customs valuation data submission becomes the starting point for customs audits

Managing integrated income tax and customs risk through alignment with transfer pricing documentation

The System for Customs Valuation Data Submission, introduced by the Korea Customs Service (KCS) in September 2025, is no longer a routine filing step. It has become the starting point for customs audits. Data submitted by companies is accumulated by Customs and serves as the basis for risk analysis and audit-target selection. Companies that fail to submit data or that submit inadequate data may become immediate targets for sanctions and customs audits. In other words, what is declared, and how, now determines a company's customs risk profile going forward.

One year into the system, what was initially perceived as "attaching one more document to the value declaration" has fundamentally changed. The KCS has established a dedicated unit, revoked tax benefits, launched customs audits and announced plans to embed artificial intelligence (AI) into customs administration. These developments have made the practical significance of the system incomparably greater than in its first year.

This publication highlights three key messages:

- The consequences of non-submission or inadequate submission are no longer merely anticipated; they are being enforced.
- Submitted data serves as the base dataset for AI-based risk analysis and audit-target selection.
- Customs valuation data, particularly the related-party transaction explanation, must be reviewed and prepared in connection with income tax transfer pricing (TP) documentation. Preparing it at the time of TP documentation is the most efficient approach.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Accordingly, this publication first explains the system, developments during its first year, the consequences of non-compliance and the risks that companies should consider. It then sets out EY recommendations and the support available from EY Korea's Global Trade team.

Understanding the Customs Valuation Data Submission system

The system changes the timing of document submission. Under the previous process, supporting documents substantiating the customs value were submitted only after a customs audit had commenced. Under the new system, however, these documents are submitted to Customs with the customs value declaration at the time of import. The principal features are summarized below.

Item	Description
Companies in scope	Importers whose combined prior-year payments of customs duty, import VAT and related taxes reach KRW500 million or more, assessed per business registration number. AEO-certified importers and companies holding an Advance Customs Valuation Arrangement (ACVA) ruling are excluded (only with respect to the goods covered by the ruling).
Data to be submitted (eight categories)	1) Royalties and license fees; 2) Assists; 3) Commissions and brokerage; 4) Transport, insurance and related charges; 5) Cost of containers and packing; 6) Proceeds of any subsequent resale accruing to the seller; 7) Indirect payments, including set-off of debts, management support fees and marketing fees; and 8) Related-party transactions, including a detailed explanation of the customs-value determination method and whether any subsequent or retroactive price adjustment applies. If none of the categories applies, a "statement of reasons for non-submission" must be filed.
Filing frequency	If goods are imported repeatedly from the same seller under the same conditions, the data is submitted once with the first import declaration of each year. Subsequent declarations refer to the first import declaration number in box 7 of the value declaration. Related-party transaction data is submitted per supplier, and resubmission is required when the contract or seller changes during the year.
Documentation	The value declaration (additions section) must be consistent with the descriptions in the supporting documents. Supporting documentation will be accepted only if it contains all mandatory information required under the KCS guidelines, including the amount, the payer and beneficiary, the nature of the payment and the basis for calculating the amount.

One year in: what has changed

The framework itself has not changed. What has changed is the KCS's commitment and approach to operating and enforcing the system. The developments during the first year are set out below.

Date	Key developments
1 September 2025	The System for Customs Valuation Data Submission enters into force.
30 December 2025	After reviewing approximately 700,000 filings over four months, the KCS issues the Operational Guideline on the Submission of Customs Valuation Data at the Time of Value Declaration. The guideline sets out mandatory items and good and poor practices for each of the eight categories, states that compliant filers will be deprioritized for audit and warns non-filers of sanctions.
1 January 2026	The Operational Guideline on the Issuance of Revised Import VAT Invoices takes effect. In related-party transactions, where data requested by Customs is not submitted within 60 days, is falsely submitted or contains a material defect, no revised import VAT invoice is issued on reassessment.
February 2026	Seoul Main Customs establishes a Customs Valuation Data Analysis Team to assess the adequacy of submitted data and select audit targets.
1H 2026	Based on the dedicated team's analysis, the KCS identifies companies that failed to submit data or submitted inadequate data, including companies with inadequate related-party explanations; companies that did not submit data despite related-party transactions identified in earlier audits; and companies that failed to respond to a second request without justification.
July 2026	The KCS revokes monthly-payment approval and launches customs audits against 10 companies with a high likelihood of customs-value distortion, as announced on 16 July 2026.
2H 2026	The KCS announces the introduction of an AI Customs Audit System and the application of AI across customs administration as priority initiatives. Compliant filers are subject to differentiated treatment, including exclusion from selection for a regular customs audit.

In summary, the KCS has specified submission standards through detailed guidelines, linked non-compliance to concrete legal and administrative consequences, established a dedicated team and AI-based analytical systems, and begun enforcing actual sanctions and audits. This signifies that the system has transitioned from a guidance-oriented approach to active enforcement.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Consequences of non-submission or inadequate submission

The sanctions initially described as potential measures were applied in practice during the first half of 2026. A "we will submit when requested" approach is no longer safe. The consequences extend beyond additional customs duties and may affect customs clearance procedures and cash flow.

Consequence	Content and practical impact
Priority audit selection	Repeat non-filers and inadequate filers may be prioritized for customs audit. Customs audits may review the preceding five years of imports and result in additional customs duties and penalties.
Revocation of monthly-payment approval	Loss of the payment deferral benefit of up to 45 days and reversion to payment per declaration within 15 days, adversely affecting cash flow and increasing the customs-clearance workload.
Suspension of security waiver	Companies previously permitted to clear goods without posting security may be required to provide guarantees, resulting in guarantee-insurance and other financing costs and possible clearance delays until security is posted.
Higher inspection ratio	Classification as a non-compliant company under risk management may increase document-review and physical-inspection ratios, leading to longer clearance times, inspection and logistics costs, and delivery risk.
Non-issuance of revised import VAT invoice	If required data is not submitted within 60 days, is falsely submitted or contains a material defect, no revised import VAT invoice is issued on reassessment for declarations filed on or after 1 January 2026. The additionally assessed import VAT therefore cannot be credited as input VAT.

Key risks that companies should consider

- **Risk 1. Submitted data becomes the base dataset for AI risk analysis and customs audits**

  Submitted valuation data is combined with import declaration data, foreign-exchange receipts, and payment records and trade statistics to identify risk indicators. The following mismatches are examples of matters that an analytical system may detect automatically:

  - The value declaration marks the parties as related and selects the transactional net margin method, but the explanation does not describe the target margin or retroactive adjustment mechanism.
  - Foreign-exchange records show royalties or management support fees remitted to the head office, yet the additions box is blank and only a statement of reasons for non-submission was filed.
  - The delivery term on the import declaration is Free On Board (FOB), but no freight addition or freight data is filed, or goods are imported from multiple suppliers but data is submitted only for the first supplier.
  - A year-end transfer pricing adjustment changes the company's profit or loss but is not reflected in the declared import price, while the valuation data records "no" for retroactive adjustment.

  Under its vision of "leading fair growth through AI," the KCS announced that it would refine import and export data into a form that AI can read and build an audit system capable of selecting audit targets with greater precision. Because companies with inadequate submitted valuation data, including related-party transaction explanations, have been identified as a principal audit-selection criterion, what is explained, and how it is explained, will increasingly determine a company's customs risk profile.

- **Risk 2. Transfer pricing documentation alone does not satisfy customs valuation requirements**

  The most common misconception since the system took effect is that income tax TP documentation, such as a TP study or local file, also satisfies the customs valuation requirement. The KCS guideline expressly rejects this view, citing as poor examples cases where only the arm's-length pricing method is stated without sufficient explanation of the logic used to determine the customs value of individual imported goods, and cases where only financial statements are submitted.

  The two documents have different purposes and verification units. For a Korean distribution subsidiary, a TP report generally applies the transactional net margin method (TNMM) to test whether the Korean entity's operating margin falls within an arm's-length range. It does not explain the formula by which the unit price of each imported item is established. The customs valuation explanation, by contrast, requires precisely that item-level pricing formula and its supporting basis.

Consequence	Transfer pricing documentation (income tax)	Customs value documentation (customs)
Focus area	Is the import price so high that domestic taxable income is understated?	Is the import price so low that the customs value is understated?
Verification	Operating margin of the entity or by transaction type, such as TNMM	Transaction value and pricing basis of each imported item, by supplier and product
Key content	Functional, risk and asset analysis; selection of the arm's-length method; benchmarking	Pricing formula, basis of its components, target margin and the conditions, calculation, accounting treatment and import-declaration treatment of subsequent adjustments
Timing	Within 12 months after the corporate income tax filing deadline	With the first import declaration each year, per supplier; refiled when terms or the seller change

EY recommendation: prepare customs valuation data in parallel with TP documentation

Our recommended approach is "one set of facts, two reports." The National Tax Service (NTS) is concerned that an import price set too high may understate taxable income in Korea, while the KCS is concerned that an import price set too low may understate customs value. The two documents may legitimately reach different conclusions under different tests.

The underlying facts, however, must be consistent. The common factual base, including the functional analysis, price-setting process, pricing formula and adjustment policy should be established first. The arm's-length logic for income tax and the transaction-value logic for customs can then be developed on top of it. If the two documents contradict each other (e.g., if one states that headquarters sets the price while the other states that the Korean subsidiary independently determines the price), the inconsistency may be treated as a material defect.

As AI-driven government innovation and cross-agency data integration continue to advance, tax data sharing between the NTS and the KCS is expected to increase, and information submitted by companies may become an important starting point for review and verification by both authorities.

Preparing customs valuation data at the time of TP documentation is also the most efficient approach. In practice, customs valuation data must be submitted with the first import declaration each January, with an extension of up to 60 days available, while TP documentation is prepared after year-end closing. A single review process can combine the operational interviews, functional analysis and intercompany contract review conducted for TP documentation with discussions involving the company's global TP and customs personnel.

This allows item-level pricing formulas, cost build-up, mark-up support, the customs treatment of subsequent adjustments and the existence of the seven statutory addition elements to be reviewed together, with the TP documentation and customs valuation documentation prepared concurrently.

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

The same process can also complete the explanation required for the following January's first import declaration. Potential customs valuation risks, including royalty additions, subsequent adjustments not reflected in customs values and freight omitted under FOB transactions, can be identified early and addressed through proactive measures such as voluntary amended declarations, provisional value declarations or an ACVA application.

Period	Transfer pricing work (income tax)	Customs valuation work (recommended in parallel)
Post-closing (January to March)	Confirm the prior-year actual operating margin and assess whether a subsequent adjustment is required.	Finalize prior-year adjustments; update and file the explanation for the first import declaration; recheck the applicability of all eight categories.
Documentation (April to September)	Conduct functional-analysis interviews and benchmarking, and prepare the local file and master file.	Use the same interviews to confirm item-level pricing formulas, cost build-up and mark-up support; prepare per-supplier explanations; test consistency between the two documents.
Year-end	Forecast the current-year margin and decide whether to make a subsequent adjustment.	Where an adjustment is made, review how it should be reflected in import declarations through an amended declaration or claim for reassessment; reflect next-year contract and pricing changes.

This parallel workstream yields three practical benefits. First, it reduces costs and saves time. Second, because both reports start from the same set of facts, the company can maintain a consistent defense in either an income tax or a customs audit. Third, customs vulnerabilities can be identified early and addressed through pre-emptive measures such as a provisional value declaration or an ACVA application.

How EY Korea can help

One year after implementation of the system, companies are advised to review their customs valuation data submissions and their consistency with existing TP documentation during the second half of 2026. EY Korea's Global Trade team applies the "one set of facts, two reports" approach in actual projects and provides the following services, tailored to each company's circumstances.

Service	Description
Customs value documentation (mandatory summary) for submission to Customs	Prepare detailed supplier-specific explanations satisfying the mandatory requirements of the KCS guidelines, including shareholding structure, pricing formula, cost and mark-up, basis for the target margin and retroactive adjustment history.
Two sets [LR1.1][RC1.2] of income tax TP and customs documentation	Prepare the local file or master file and customs valuation report within a single project, establish a common factual foundation, and confirm consistency between the two sets of documentation.
Diagnostic review of the eight data categories for submission to Customs	Review the most recent two years of customs-clearance data, intercompany agreements and remittance records to identify missing addition elements and filing inconsistencies, and assess whether voluntary amended declarations should be made.

If you have questions regarding whether your company falls within the scope of the system, the appropriate approach to preparing a related-party transaction explanation or the timeline for preparing customs valuation data in parallel with TP documentation, please contact EY Korea's Global Trade team. ■

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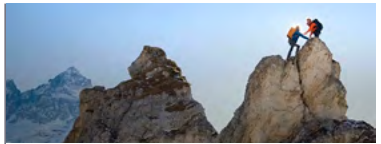

Geostrategic Analysis – September 2026

11 September 2026

Tariff refunds: 3 ways to help reduce the process's corporate risk

07 August 2026

US Tariffs Return: What Irish Businesses Need to Know

30 July 2026

India's US$1 trillion export ambition: Is the milestone within reach?

28 July 2026

Trade policy and the 2026 redesign of critical mineral supply chains

22 July 2026

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13 July 2026

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01 July 2026

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18 June 2026

How business leaders navigate geopolitical risk with confidence

16 June 2026

How sustainability regulations are reshaping global trade

11 June 2026

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09 June 2026

How China's VAT reform is reshaping global indirect tax

04 June 2026

Why sustainability taxes are becoming a core tax issue

23 April 2026

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

EY Global Trade webcasts and podcasts

For a better viewing experience, please ensure your browser setting is customized to 'open in a new tab'.

What businesses need to know about the EU Customs Union reform

27 October 2026

Business and trade policy update

13 October 2026

Real Tax. Real Insights. Straight talk from the EY Center for Tax Policy

06 August 2026

EY talks tax – Business and trade policy at the Trump Administration's midpoint (July 28, 2026)

30 July 2026

Business and trade policy at the Trump Administration's midpoint

28 July 2026

Navigating tax and fiscal policy in Americas critical minerals supply chains

10 June 2026

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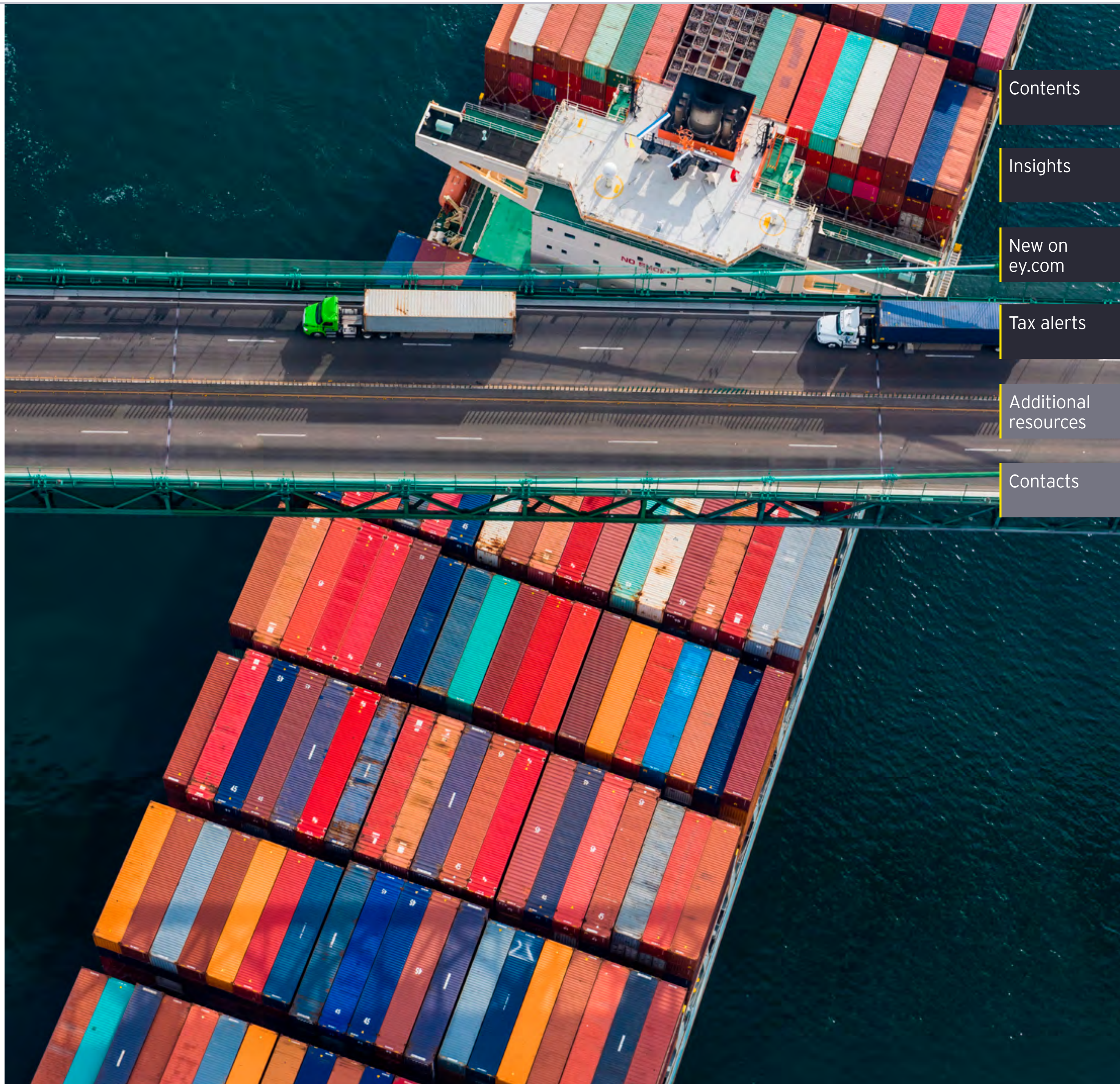

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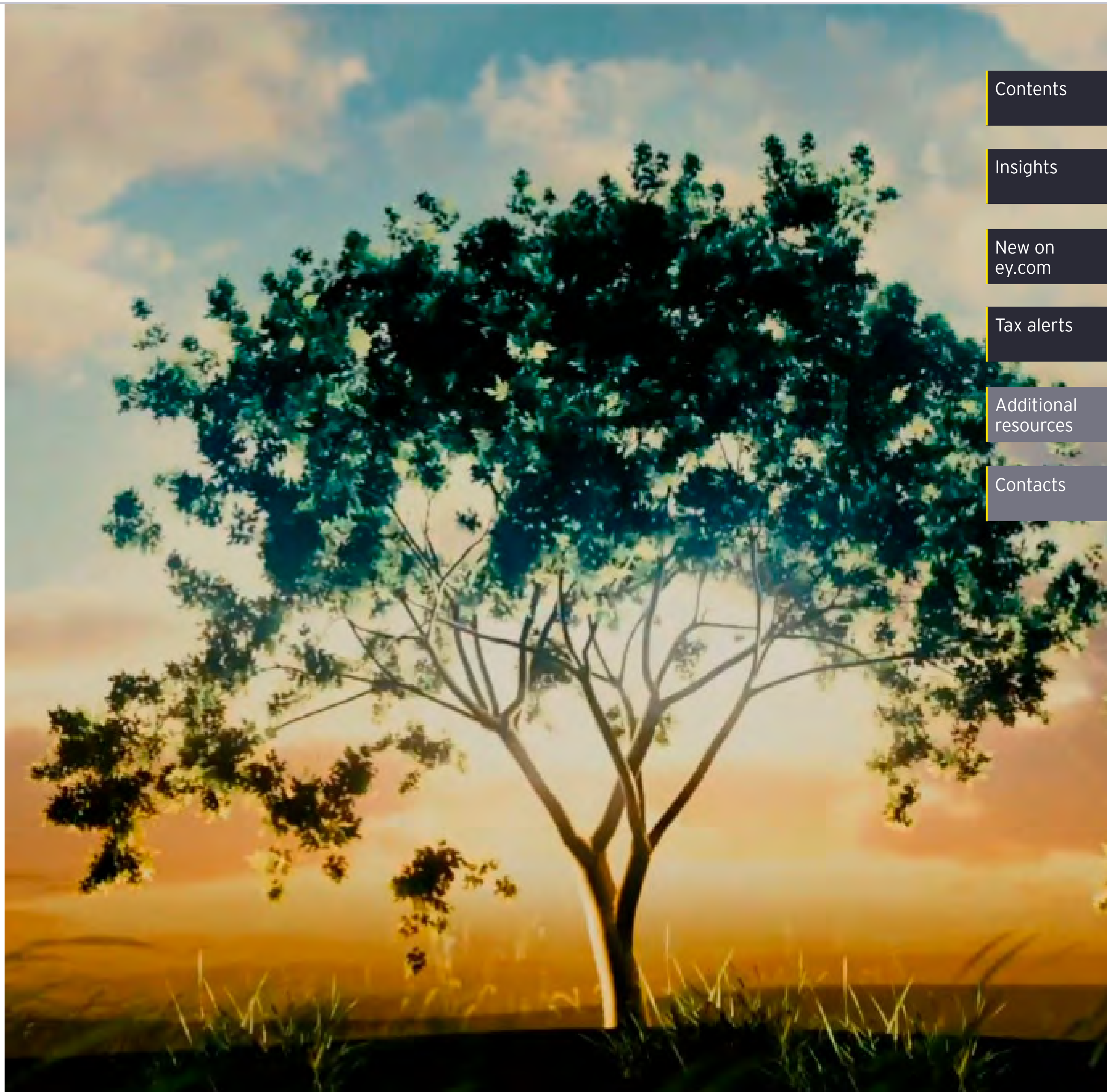
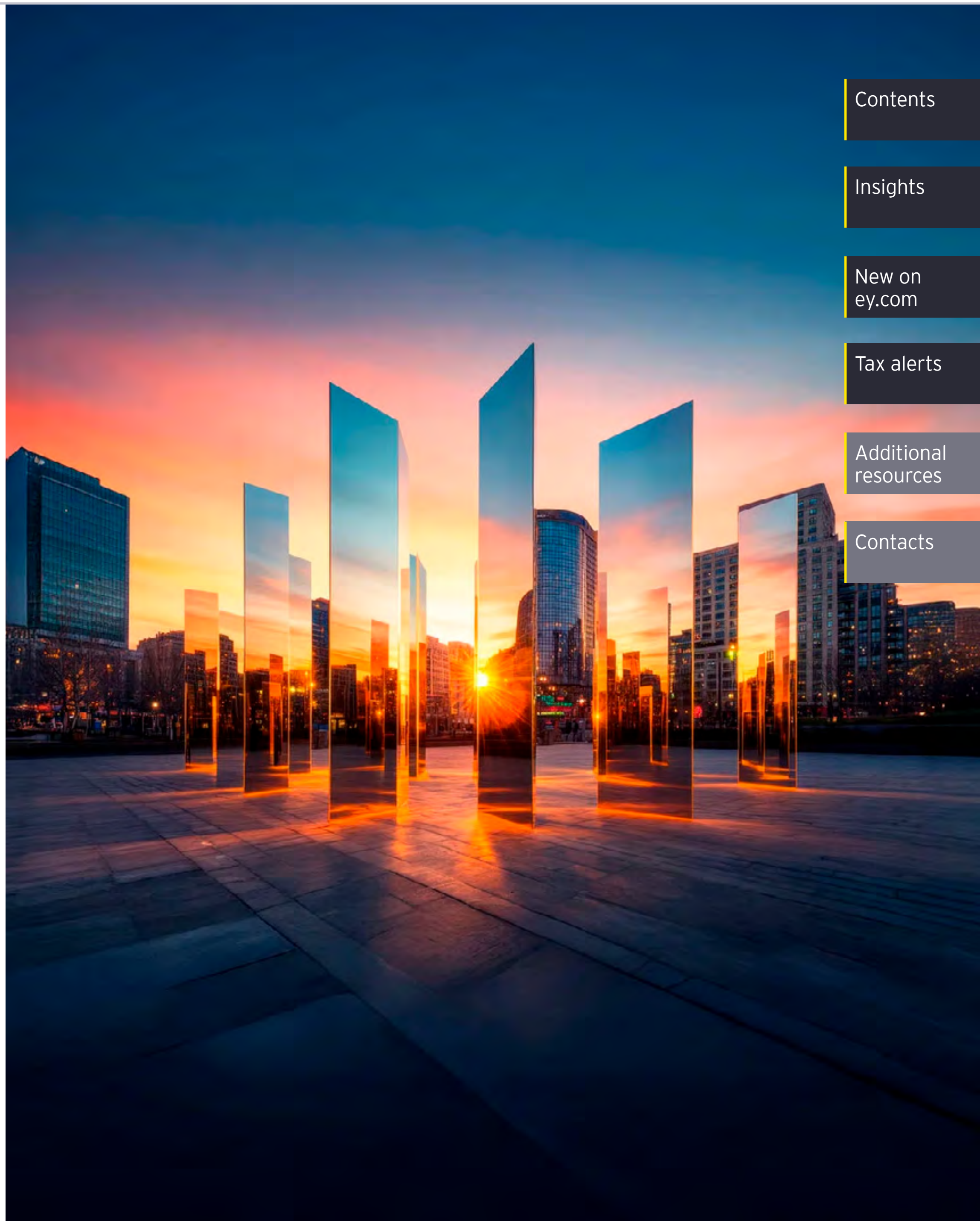


Worldwide VAT, GST and Sales Tax Guide 2026



Outlining value-added tax (VAT), goods and services tax (GST) and sales tax systems in 153 jurisdictions, the 2026 edition of our annual reference book is now available to download as a pdf. The content is current as of 1 January 2026.

This Guide covers a wide range of topics related to taxes on consumption, including information about the scope of the tax in each jurisdiction, who is liable, rates, time of supply, recovery of input tax by taxable persons and non-established businesses, invoicing, returns and payment and penalties. Where applicable, chapters detail the VAT or GST provisions related to the digital economy (including online platforms), e-invoicing and digital tax administration measures.

New chapters for 2026 include Cabo Verde, Cameroon and Ethiopia. Further extended content includes a fully revised chapter for Bhutan (for the recent GST implementation) and updates of the significant indirect tax reforms in Brazil and China.

At the back of the Guide, you will find lists of the names and codes for the national currencies and the VAT, GST and Sales Tax rates for the jurisdictions covered.

Worldwide VAT, GST and Sales Tax Guide 2026

Tax alerts

Americas

Asia-Pacific

Europe, Middle East, India and Africa

Global

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Americas

Brazil

- Brazilian exporters must consider implications of latest US tariffs
  20 July 2026
- USTR issues Notice of Action imposing 25% Section 301 tariffs on imports from Brazil, effective 22 July 2026
  16 July 2026
- Brazilian exporters consider how to navigate ongoing tariff instability in light of new US tariffs
  24 June 2026
- USTR issues Section 301 determination on Brazil, initiates Section 301 IP investigation into Vietnam; tariffs proposed and comment periods open
  02 June 2026
- Brazil publishes IBS and CBS regulations, marking start of operational phase of indirect tax reform
  04 May 2026

Canada

- Canada introduces legislation to implement counter-tariffs
  16 September 2026
- Administration announces new actions on Canadian goods
  09 September 2026
- US bans certain Canadian alcoholic beverages, dairy and motor vehicle products under Section 338; modifies scope of existing 50% duties
  09 September 2026
- Canada extends suspension of federal excise tax on fuel
  08 September 2026
- Canada announces counter-tariffs in response to new US tariffs
  28 August 2026
- 50% tariffs take effect on Canadian goods after talks collapse
  24 August 2026
- Canada launches public consultations on steel imports and imposes surtax on wood cabinets and vanities
  12 August 2026
- New 50% tariffs imposed on a range of Canadian goods
  20 July 2026
- Canada Border Services Agency issues July 2026 trade compliance verification list update
  15 July 2026
- CBSA July 2026 trade compliance verification update
  14 July 2026
- Canada extends steel tariff measures for an additional year
  14 July 2026
- Canada Revenue Agency intends to postpone new administrative position on GST/HST treatment of trailing commissions
  15 May 2026
- Canada temporarily suspends federal excise tax on fuel
  20 April 2026

United States

- Canada introduces legislation to implement counter-tariffs
  16 September 2026
- Administration announces new actions on Canadian goods
  09 September 2026
- US bans certain Canadian alcoholic beverages, dairy and motor vehicle products under Section 338; modifies scope of existing 50% duties
  09 September 2026
- US Customs and Border Protection issues notice seeking comment on heightened import disclosure and supply chain visibility requirements
  02 September 2026
- US Customs and Border Protection issues guidance on filing entries as Section 338 duties on certain Canadian goods take effect
  25 August 2026
- US CBP begins enforcement procedures to check accuracy of data on importer of record; inaccurate CBP Form 5106 information may trigger immediate voiding of IOR numbers
  19 August 2026

Americas continued

- US implements new Section 301 forced labour tariffs
  17 August 2026
- US President issues Section 232 proclamation imposing tariffs of up to 100% on unmanned aircraft systems and their components
  14 August 2026
- US Section 232 proclamation establishes minimum import prices and a 15% tariff on polysilicon and derivative products
  07 August 2026
- USTR finalizes Section 301 forced labor tariffs on 60 economies; additional tariffs of 10% or 12.5% take effect 24 July 2026
  24 July 2026
- USTR takes final action imposing tariffs on 60 trading partners as Section 122 tariffs expire
  24 July 2026
- USTR Greer testifies at Senate Finance Committee hearing
  23 July 2026
- US announces aluminum production incentive program and new defense supply chain requirements for critical materials
  21 July 2026
- US imposes additional 50% tariff on certain Canadian imports under Section 338
  21 July 2026
- USTR issues Notice of Action imposing 25% Section 301 tariffs on imports from Brazil, effective 22 July 2026
  16 July 2026
- Brazilian exporters consider how to navigate ongoing tariff instability in light of new US tariffs
  24 June 2026
- USTR initiates Section 301 investigation into Germany pharmaceutical pricing practices; hearing scheduled and comments requested
  19 June 2026
- US President issues Executive Order strengthening customs enforcement; enhanced importer requirements, disclosure obligations and penalties announced
  04 June 2026
- New tariffs proposed on 60 trading partners in connection with Section 301 investigation relating to forced labor import bans
  04 June 2026
- USTR issues Section 301 determinations on forced-labor investigations across 60 economies; additional duties proposed and comment period open
  03 June 2026
- USTR issues Section 301 determination on Brazil, initiates Section 301 IP investigation into Vietnam; tariffs proposed and comment periods open
  02 June 2026
- US issues proclamation further adjusting Section 232 tariff regimes for aluminum, steel and copper; expanded reduced rates and revised thresholds announced
  02 June 2026
- US Department of Commerce establishes application process for pharmaceutical Section 232 tariff relief tied to onshoring commitments
  13 May 2026
- Ways and Means Committee holds USTR hearing
  23 April 2026

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Asia-Pacific

Central Asia

- Tax and customs support measures for pharmaceutical industry
  25 May 2026

New Zealand

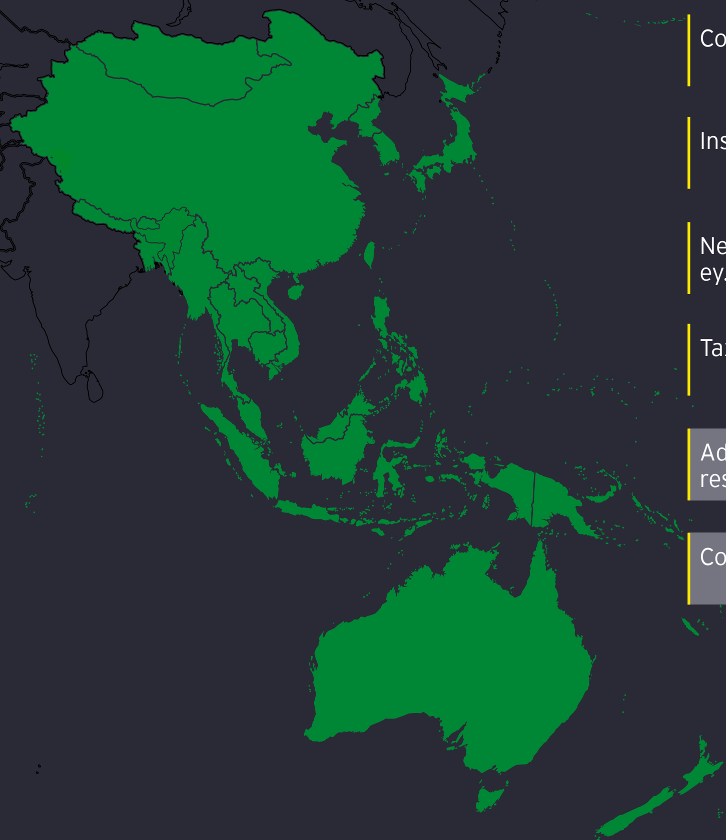
- India and New Zealand sign free trade agreement
  27 May 2026
- India-New Zealand FTA signed in April 2026, enabling zero-duty access for Indian exports to New Zealand
  28 April 2026

UAE / Republic of Korea

- UAE-Korea Comprehensive Economic Partnership Agreement takes effect
  07 May 2026

Vietnam

- Customs & Global Trade Update | July 2026
  31 July 2026
- Customs & Global Trade Update | July 2026
  21 July 2026
- Customs & Global Trade Update
  01 July 2026
- Customs & Global Trade Alert | June 2026 | Key updates on customs administrative penalties under Decree 169/2026/ND-CP
  18 June 2026
- Customs & Global Trade Alert | May 2026 | Implementation of the centralized customs clearance model in Vietnam
  19 May 2026
- Customs & Trade Regulatory Updates
  31 March 2026
- USTR issues Section 301 determination on Brazil, initiates Section 301 IP investigation into Vietnam; tariffs proposed and comment periods open
  02 June 2026



Europe, Middle East, India and Africa

Azerbaijan
- UAE-Azerbaijan Comprehensive Economic Partnership Agreement
  07 May 2026

Egypt
- Egypt amends customs regulations to streamline documentation and clearance procedures
  10 June 2026

EU
- European Parliament committee proposes to strengthen CBAM and close loopholes
  17 August 2026
- European Commission adopts EUDR Delegated Act and Implementing Act
  17 August 2026
- Economic conditions for biodiesel Inward Processing authorisations under review in EU
  17 August 2026
- European Commission publishes minutes of 51st meeting of the Group on the Future of VAT, concerning the VAT in the Digital Age (ViDA) package
  20 April 2026

EU / Türkiye
- Decision on the mutual recognition of AEO programs between the EU and Türkiye adopted
  23 July 2026

India
- India UK CETA Automotives sector impact
  16 July 2026
- CBIC clarifies drawback and refund mechanism under customs where import duty is paid through duty credit scrips
  07 July 2026
- India and New Zealand sign free trade agreement
  27 May 2026
- India-New Zealand FTA signed in April 2026, enabling zero-duty access for Indian exports to New Zealand
  28 April 2026

Italy
- Italy | VAT refund opportunities until 9 August 2026 for transaction costs in merger-leveraged buyout transactions
  30 April 2026

Kazakhstan
- Introduction of the traceability mechanism for goods imported into the EAEU customs territory
  17 July 2026

Netherlands
- Public consultation opened on proposed Dutch sugar tax
  17 August 2026
- Sustainability and green taxes
  20 July 2026
- New legislation
  20 July 2026
- EU implements tariff reductions under EU-US trade arrangement
  20 July 2026
- Commission publishes simplification review of EU Deforestation Regulation
  25 May 2026

Norway
- Norway proposes to introduce mandatory e-invoicing from 1 January 2027
  08 May 2026

Oman / GCC
- Oman amends Executive Regulations of the GCC Common Customs Law
  09 September 2026

Portugal / EU
- Portugal | New ordinance introduces phased amendments to VAT compliance and reporting obligations
  17 August 2026
- Portugal | CJEU holds in Stellantis that transfer pricing adjustments are not payment for separate supplies for VAT
  15 May 2026

Qatar
- Qatar issues decree updating Integrated Customs Tariff
  16 July 2026
- Qatar approves draft e-invoicing law and implementing regulations
  07 May 2026

Republic of Korea
- UAE-Korea Comprehensive Economic Partnership Agreement takes effect
  07 May 2026

Europe, Middle East, India and Africa continued

Romania

- Information on accredited CBAM verifiers and the CBAM certificate price for Q2 2026 has been published
  14 July 2026

Saudi Arabia

- Saudi Arabia issues procedural guide on tax and customs operations in Special Economic Zones
  03 September 2026
- Saudi Arabia revises customs duty rates on selected agricultural and food tariff items
  20 July 2026

Switzerland

- UK-Switzerland Free Trade Agreement expands workforce mobility
  16 July 2026

Tanzania

- Tanzania Court of Appeal ruling clarifies chargeability of VAT on demurrage charges
  28 May 2026

Türkiye

- Customs & Global Trade Update
  31 July 2026
- Customs & Global Trade Update
  01 July 2026

UK

- India UK CETA Automotives sector impact
  16 July 2026
- UK-Switzerland Free Trade Agreement expands workforce mobility
  16 July 2026
- Gulf Cooperation Council concludes key free trade agreement with UK
  05 June 2026

United Arab Emirates (UAE)

- UAE issues decision introducing due diligence requirements for input VAT recovery
  26 August 2026
- UAE-Azerbaijan Comprehensive Economic Partnership Agreement enters into force
  07 May 2026
- UAE-Korea Comprehensive Economic Partnership Agreement takes effect
  07 May 2026

Uzbekistan

- Tax and customs support measures for pharmaceutical industry
  25 May 2026

Vietnam

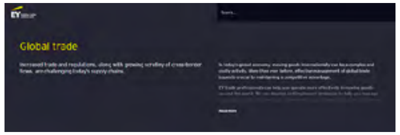
- Customs & Global Trade Update
  31 July 2026

Global

- Trade Lines | Policy intelligence for global business leaders
  18 September 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  17 September 2026
- Trade Lines | Policy intelligence for global business leaders
  14 September 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  08 September 2026
- Trade Lines | Policy intelligence for global business leaders
  03 September 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  21 August 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  07 August 2026
- Trade Lines | Policy intelligence for global business leaders
  07 August 2026
- Trade Lines | Policy intelligence for global business leaders
  31 July 2026
- Trade Lines | Policy intelligence for global business leaders
  24 July 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  23 July 2026
- Trade Lines | Policy intelligence for global business leaders
  17 July 2026
- Trade Lines | Policy intelligence for global business leaders
  10 July 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  09 July 2026
- EY Global Tax Controversy Flash Newsletter (Issue 94) | Global trade functions are entering a new era of controversy risk
  06 July 2026
- Trade Lines | Policy intelligence for global business leaders
  26 June 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  25 June 2026
- Trade Lines | Policy intelligence for global business leaders
  19 June 2026
- Trade Lines | Policy intelligence for global business leaders
  12 June 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  11 June 2026
- Trade Lines | Policy intelligence for global business leaders
  05 June 2026
- Trade Lines | Policy intelligence for global business leaders
  29 May 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  28 May 2026
- Trade Talking Points | Policy intelligence for global business leaders
  21 May 2026
- Trade Talking Points | Policy intelligence for global business leaders
  15 May 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  14 May 2026
- Trade Lines | Policy intelligence for global business leaders
  01 May 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  30 April 2026
- Trade Lines | Policy intelligence for global business leaders
  24 April 2026
- Trade Lines | Policy intelligence for global business leaders
  17 April 2026
- Trade Talking Points | Latest insights from EY's Trade Strategy team
  16 April 2026
- Trade Lines | Policy intelligence for global business leaders
  10 April 2026
- Trade Lines | Policy intelligence for global business leaders
  10 April 2026

Additional resources

Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts



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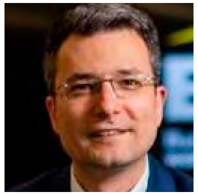

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

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Contents
Insights
New on ey.com
Tax alerts
Additional resources
Contacts

Contents

Insights

New on ey.com

Tax alerts

Additional resources

Contacts

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