SUMMARY

PARTNERING COMPLIANCE AND COMPETITIVENESS IN THE EU – IS IT POSSIBLE?

16 NOVEMBER 2023, STANHOPE HOTEL, BRUSSELS

The European Freight Forwarders Association (CLECAT) and the European Shippers' Council (ESC) organized their second Logistics for Europe event on 16 November in Brussels. The collaborative initiative underscores the importance of enhanced cooperation between shippers and service providers in the logistics supply chains to ensure the EU remains a competitive and sustainable hub for logistics. The event delved into the EU Customs Reform and its potential impact on SMEs in the EU and on the need for trade to adopt sustainable and transparent sourcing practices, marked by new reporting standards.

Nicolette van der Jagt, Director General of CLECAT opened the event by welcoming participants and introducing **Roman Stiftner**, President of the ESC and **Willem van der Schalk**, President of CLECAT.

Mr Stiftner referred to shifts in global supply chains post-COVID-19, and the increasing relocation of suppliers closer to buyers. He stressed the EU's need to strike a balance between compliance and competitiveness, noting that new regulations such as the Carbon Border Adjustment Mechanism (CBAM), should be practical and feasible for industry implementation.

Mr van der Schalk President of CLECAT reflected on business concerns on EU's competitiveness with the regulatory pressure on business mounting whilst remaining dependent on complex value and supply chains. Legislative measures are compelling shippers and freight forwarders to report not only on their financials but also on social and environmental aspects when engaging in global sourcing. This calls for increased collaboration between shippers and service providers within the logistics supply chains.

SETTING THE SCENE

Mr Rem Korteweg, Senior Research Fellow and Head of Initiatives & Outreach at the Clingendael Institute gave a keynote introduction on the impact of geopolitics on the global trade landscape and the future of globalization. He noted that increasing external shocks to trade and with protectionism and sanctions rising investments flows are changing. With producers spreading risks, this means 'more trade' because supply chains are spread over more countries.' The US was was always dominant in all areas, the world was "unipolar. Now we are in a transition, and we don't know exactly where it is going. It could be bipolar with dominance from both the US and China. But also multipolar where power lies with multiple countries, such as the US, China, India, Brazil, etc. Or maybe there will be no single ruler: non-polar. We don't know, but what is clear is that globalization and trade will change. Everything becomes more geopolitical, more complex, and more disputed among each other.'

In recent years, there have been various impactful shocks in global supply chains with none of them being predicted (Ever Given, economic protectionism like the China-US trade war, health crises like the pandemic, or political events like the war in Ukraine), but they all caused companies to think about the dependence of their supply chains and resilience.

Evidence that producers have started reorienting their supply chains can be found in the steadily declining share of imports and trade in the Gross National Product of countries. Investment flows are changing. The world is investing less in China and moving it to other countries. In addition, trade is becoming increasingly geopolitically oriented via friend-shoring. The EU is also taking more measures to stimulate trade with friendly countries. Mr Korteweg argued that globalisation is not ceasing but undergoing a transformation, which also includes a shift in terms of norms. This is notably visible in the European Union's implementation of new trade strategies that encompass both defensive and offensive trade instruments, as well as non-trade instruments that impact trade such as the CBAM and the Corporate Sustainability Reporting and Due Diligence Directives. These developments also offer opportunities for the transport and logistics sector because if companies spread their supply chains across multiple countries, it means an increase in trade. In conclusion, Mr Korteweg noted that the landscape becomes more complicated, more disputed, and more expensive. The EU had very cheap access to all products and markets from around the world for many years. That time is over.

Mr Thomas Larrieu, CEO of UPPLY, gave an introduction on how the geopolitical situation is impacting international trade from the perspective of the Upply Marketplace and R&D. As a consequence of the significant impact of recent geopolitical shocks on supply chain dynamics, costs have increased on multiple fronts, including additional tariffs on goods, rising costs for raw materials and energy, operational disruptions causing delays, congestion, component shortages and labour-related issues. Mr Larrieu also highlighted a growing focus on nearshoring and friend-shoring strategies among companies, with the trend of moving productions closer to the end consumer. Ongoing concerns relate to the shortage of drivers in Europe, the rise in infrastructure charging in the road sector, not just in Germany but also in other countries, which is forecasted to increase the overall operating expenses, posing a significant challenge for the road transport sector. Globally, the cost base for carriers, whatever the mode of transport, is significantly higher than it was even 5 years ago. Finally, the crucial role that digitalisation can play was emphasised, highlighting how companies such as UPPLY employ innovative technological solutions to help professionals benchmark, anticipate, and optimise their freight prices, aiming to enhance efficiency. However, prioritising connectivity as a first step is essential, as it will pave the way for digitalisation and automation of processes.

EU CUSTOMS REFORM: SIMPLIFICATION OR A DREAM TOO FAR?

The first expert panel moderated by **Dr Anna Jerzewska,** CEO of Trade & Borders featured:

- **Vanesa Hernández Guerrero,** Head of unit A2, customs legislation, DG TAXUD
- **Javier Campillo**, Financial Counsellor Customs, Spanish Permanent Representation to the EU
- **Werner Rens**, Advisor-General, Head of Department, Belgian Customs
- **Dimitri Sérafimoff**, Chair CLECAT Customs institute, Director Customs Support
- **Nancy Lindenhovius**, Compliance Officer, WILMAR EUROPE HOLDINGS B.V

Ms Jerzewska invited Ms. Guerrero to explain the vision behind the Customs Reform. **Ms Hernández Guerrero** highlighted that the primary aim of the proposal is to establish a simpler and more cost-effective Customs Union. This goal will be achieved by addressing the current complexities in customs procedures, the fragmentation of digitalisation and the varied approaches of Member States. Companies are now sometimes looking for the country with the least stringent regulations to get their goods into the EU. That's why harmonization is necessary, and we are working on that, he noted. The envisioned reform focuses on simplicity, fostering robust partnerships with compliant traders and the creation of a unified EU Data Hub, maintained and managed by an EU Customs Authority.

Mr Campillo acknowledged the ambitious timeline of the proposal but assured that the Spanish Presidency is committed to prioritizing the reform. He noted that discussions are already underway in the Council/EP. During the Spanish Presidency, 17 full-day meetings are devoted to dissecting the almost 300 articles of the reform, which are broken down into manageable working blocks. These blocks are: e-commerce, customs processes, the Data Hub, governance and sanctions. Some issues are more political than others and there are some commonly reappearing concerns from member states on some of these, such as SME facilitation and the new IT solutions.

Mr Rens when asked about Belgian priorities noted that whilst not authorized to officially represent Belgium's position, he made some reflections from his professional experience. He thought the reform represented a significant advancement, particularly for its provision by use of the EU customs datahub of consistent end-to-end data access for customs, which will enable more effective risk targeting, logical controls and more facilitation of legal trade. He also foresees numerous opportunities emerging for shippers and traders, some of which may currently be unrecognised. For instance, he envisaged a new advisory role for customs brokers, positioning them between the current roles of the Big4 and mere customs declaration processing.

Mr Serafimoff explained the concerns addressed by CLECAT in its response to the Customs Reform such as the diminishing role of customs agents and, consequently, the potential loss of customs support for SMEs. This is particularly relevant to those SMEs who may not be equipped to meet the new requirements necessary to achieve 'super AEO' status, also referred to as Trust and Check (T&C) traders. He emphasized that the gap between large companies, which can afford their own customs expertise and IT systems and SME importers and exporters could widen due to the proposal's 'all or nothing' approach.

Furthermore, he expressed CLECAT's disagreement with the European Commission's assumption that all AEOs will transition to T&C status. CLECAT also does not share the Commission's optimistic view regarding the popularity of the AEO/T&C status. Mr. Serafimoff pointed out that customs brokers have historically bridged this gap by extending their facilitations to their clients, a practice he advocates should continue in the future.

Additionally, Mr. Serafimoff raised concerns about non-fiscal obligations. He highlighted the increasing challenges, such as those evident with CBAM reporting, where many customs representatives are declining to assume responsibility due to the unavailability of reliable and compliant data.

Ms Hernández Guerrero voiced her doubts regarding the willingness of customs representatives to share T&C facilitations, such as self-release, exemption from transit guarantees and centralised clearance, with their clients. She encouraged freight forwarders and customs brokers to be more precise in their requests for an 'extension of facilitations'. Ms. Guerrero asked customs representatives to specify the exact facilitations they wish to transfer to their clients, as well as to identify the particular elements of the customs procedure they aim to extend. She affirmed the Commission's readiness to review these specifics. While acknowledging the desire of customs agents to assist their clients, she noted the lack of such detail in their proposals and asked them to ´tell us exactly what you want´. She also noted that the primary distinction between AEO and T&C status currently lies in the access to the future Data Hub, a requirement she believes SMEs can ´easily meet´.

Mr Serafimoff responded by confirming that CLECAT would be happy to provide the Commission with real-life examples of how current facilitations work. These examples would illustrate how AEO-certified customs representatives and freight forwarders are currently extending their authorizations without requiring their clients to possess the same status and how this is a key factor in the smooth flow of customs processing. He also highlighted the significant volume of customs declarations currently filed by representatives rather than importers and exporters directly. Mr. Serafimoff referred to the potential 'gap' in the supply chain that might arise if this expertise becomes inaccessible to companies unable to obtain AEO or T&C status.

Mr Werner proposed that indirect representation might offer a solution, although he acknowledged the reduced appeal of this option for customs brokers due to the newly added liabilities. He recommended that these additional liabilities could be managed in the future through new IT solutions. Furthermore, he suggested establishing a new type of broker-client relationship, where the importer and exporter ´uses´ the representative's customs expertise.

Ms Lindenhovius when asked, explained that while Wilmar is not an SME, the company makes use of customs representation in several EU Member States as it does not want to establish a customs department in every country. She also pointed out that, for example in the case of the deforestation legislation, enforcement preceded the establishment of the necessary IT infrastructure. She questioned whether companies would be able to keep pace and manage the increasing number of compliance obligations. She expressed concern that these factors slow down trade, as companies struggle to find the necessary resources and expertise. She also voiced her support for CLECAT's proposal to segregate non-fiscal obligations, allowing a different expert, other than the customs representative, to fulfil these duties and to incorporate this change into the new legislation.

Mr Serafimoff confirmed that the imposition of new obligations on customs representatives will likely lead to a decrease in their willingness to accept these responsibilities. This is already well demonstrated with the new CBAM regulation. This, in turn, will widen the gap between companies with in-house customs expertise and those without.

Ms Lindenhovius acknowledged that although she supports the main objective of the reform, she finds certain aspects of its practical implementation unclear. She suggested that the legislators may not have fully grasped the complexity of the supply chain. She cited the example of multiple changes in ownership of the incoming cargo en-route and stated that most trading companies will not being willing to compromise their competitive advantage by sharing commercially sensitive information. Also, the number of new regulations continue to pose significant compliance challenges for companies. She also noted that the Commission appears unresponsive to the concerns of the trade community, often disregarding their input, with the CBAM consultation being a clear example of this.

SESSION 2: SUSTAINABILITY REPORTING REQUIREMENTS in the EU: RISKS AND LIMITS FOR BUSINESS

The expert panel moderated by **Famke Schaap** (Partner Hyacint Consult) featured:

- **Thomas Dodd,** Team Leader Sustainability Reporting. D*G FISMA*
- **Klaus Hufschlag**, Senior Vice President at DHL Group, responsible for ‘ESG Reporting and Controlling
- **Chiara Del Prete**, Chair of the Sustainability Reporting Technical Expert Group, EFRAG
- **Jimena Canda**, EU Government Affairs & Public Policy Leader, Dow
- **David de Picciotto**, CEO & Co-Founder, Pledge

The conference highlighted the imperative for a collaborative industry effort to navigate sustainability reporting complexities, drawing on diverse stakeholder insights for a more sustainable and compliant future within and beyond the European Union.

Mr Thomas Dodd (DG FISMA) first presented the main objectives of the Corporate Sustainability Reporting Directive (CSRD), of which the first set of reporting standards will be applicable to companies in the scope of the Directive from 1st January 2024: The CSRD would bring more transparency to the sustainability assessment of companies, which can be used in return as a reliable source of information for the company's strategic decisions in its sustainable transition. Sustainability reporting is also an essential exercise to attract sustainable investments. Mr Dodd noted that company should not underestimate this reporting exercise, which should be as robust as financial reports, to avoid potential situation of greenwashing. Asked about the delay in the implementation of the sector-specific standards, he mentioned that it was important to focus on guidance to companies, especially SMEs for which the EFRAG will develop a simple set of voluntary standards.

Ms Chiara del Prete (EFRAG) explained the role of EFRAG in drawing up the reporting standards as tasked by the Commission and the CSRD. She noted that following the adoption of the first set of ESRS, companies need now to focus on a careful materiality assessment to find the right balance of disclosure requirements. EFRAG would gain insights from the first reporting cycle of companies to find the right balance between their needs and the requirements of CSRD. Ms del Prete added that EFRAG was also working with the Global Reporting Initiative to ensure on the interoperability of the reporting standards with other international norms.

Dr Klaus Hufschlag (DHL) highlighted the transformative effects of new reporting requirements, emphasising the need for companies to adapt their systems and to collaborate with supply chain partners to meet these new obligations. Companies, both large and progressively smaller, face a paradigm shift in their systems to generate the requisite data for compliance. He however noted several challenges for companies including data scarcity and undue burdens on SMEs which would limit the successful implementation of the new sustainability reporting standards. In line with President von der Leyen's commitment to reduce administrative burden for European companies by 25%, Dr Hufschlag highlighted that the two-year postponement of the adoption of sector-specific standards would provide a strategic window for EFRAG to develop and specify relevant sector disclosures which would serve as a tool or template for the companies operating in the respective sectors.

Ms Jimena Canda (Dow) highlighted the continued need to improve coherence various EU sustainability initiatives including CSDR, CSD and CS3D. There are now inconsistencies between the requirements of different legislations such as the CSRD, the upcoming Corporate Sustainable Due Diligence Directive and other national legislations, which create uncertainties by imposing a significant burden on companies to remain compliant. As Dow is working with over 36,000 tier 1 suppliers alone on several continents, the need for simplification and standardisation of reporting requirements is crucial. She therefore called on the Commission to focus its work on the implementation of the Green Deal and ensure the alignment of mandatory reporting, as it is not sustainable to ask companies for more and different data to report.

Mr David de Picciotto (Pledge) mentioned that companies have little time left to prepare for the start of the first reporting period and need to speed up preparations. The need for reliable tools and services to support them is therefore paramount. He added that Pledge is working with freight forwarders and trade associations to spread knowledge about the new reporting requirements as many companies are not even aware of their future obligations either from the legislation itself of from their customers which will need accurate data for their Scope 3 emissions reporting. Mr de Picciotto highlighted that the recently published GLEC Framework 3.0, in line with the ISO 14083 standard on GHG emissions calculation and reporting in transport was a good instrument for logistics, noting that third-party insurance was essential to ensure the reliability and accuracy of data shared among stakeholders.

CONCLUSION

Mr Godfried Smit, Secretary General of ESC, thanked all participants and panelists for attending the Logistics for Europe 2023 event, which proved to be once again an important forum for constructive dialogue on the future of freight transport in the EU.