TradeWatch

EY Global Trade

Issue 1 2026

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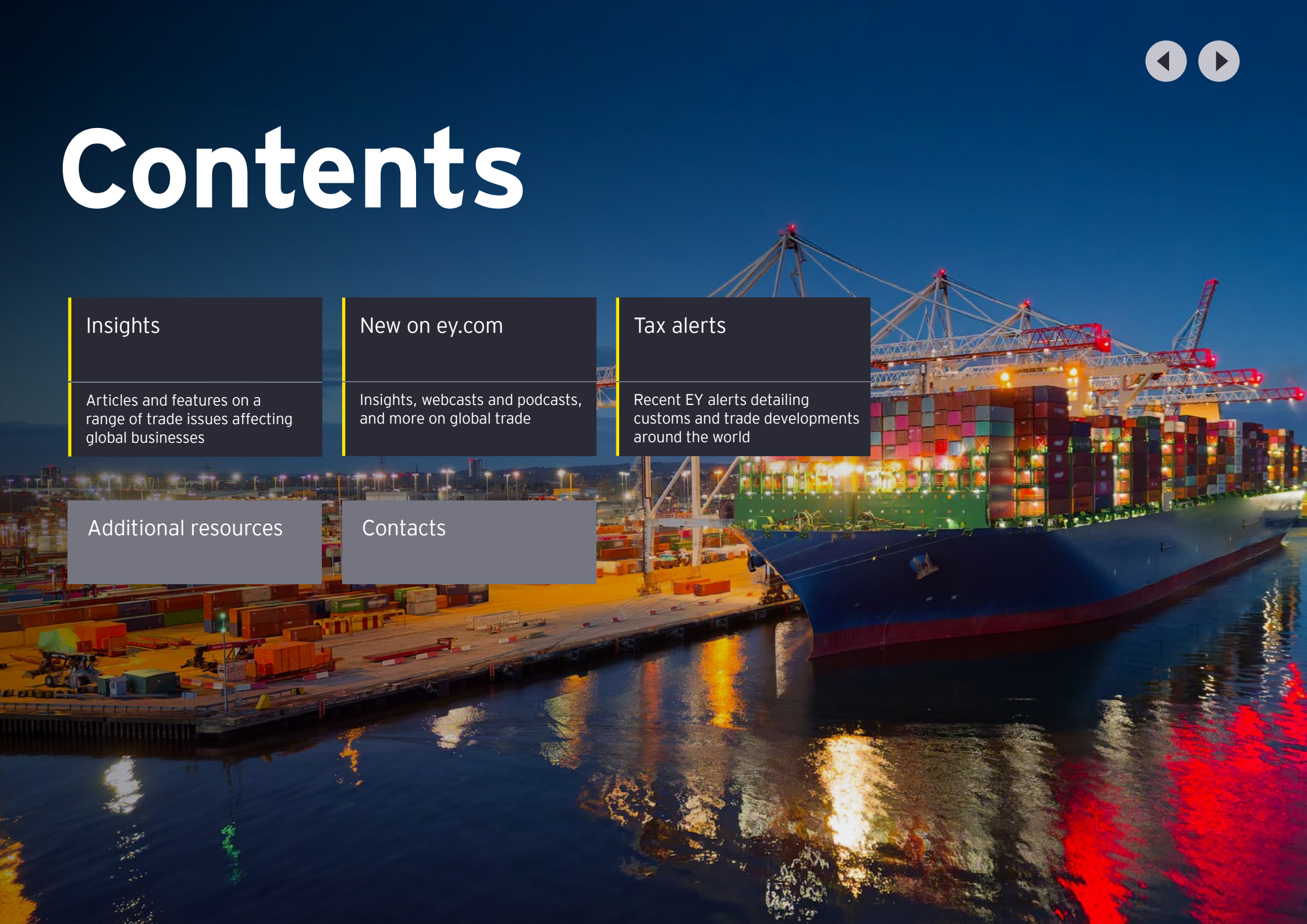

Insights

Welcome to Issue 1 2026 of *TradeWatch*

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As 2026 continues, trade and customs teams are navigating a "new normal" where regulatory change is accelerating and compliance expectations are expanding beyond traditional border requirements into data, governance, sustainability and operating model design. In this issue, we bring together insights on how these developments are playing out across regions – and what they mean in practice for trade functions that need to protect continuity, manage cost and remain audit ready.

Many authorities are shifting from document-based compliance to transaction-level traceability, with an increased reliance on electronic data and cross-checks. In Mexico, new reforms emphasize operational substantiation and introduce mandatory electronic customs valuation reporting from 1 April 2026, increasing the need for stronger data management and cross-functional coordination.

We examine the European Union (EU)–Australia Trade Agreement as an emerging development in the trans Pacific trade landscape. For many organizations, this is a timely moment to consider what future market-access changes could mean for sourcing models, trade planning and operational readiness.

In parallel, the EU is moving toward a more data-driven and risk-based customs environment, including proposals aimed at digitalization and more uniform supervision across the Single Market. These developments reinforce a consistent message: trade compliance increasingly depends on systems, data quality and governance, not just technical interpretation.

Sustainability requirements continue to reshape global trade priorities, particularly where customs processes become the "checkpoint" for compliance. The EU Carbon Border Adjustment Mechanism (EU CBAM) has entered its definitive implementation period from 1 January 2026, and businesses are now focused on authorization milestones and the practical steps needed to embed CBAM considerations into finance, contracting and supply chain decision-making.

We also explore the operational phase of the EU Deforestation Regulation (EUDR), where organizations are working through traceability, due diligence statements and the practical challenges of aligning master data, Harmonized System (HS) classification and supplier evidence – all under real clearance-time pressure.

While controls are increasing in some areas, many jurisdictions continue to invest in facilitation – and businesses are evaluating how to use these levers responsibly. In this issue, we consider India's Manufacturing and Other Operations in Warehouse Regulations (MOOWR) framework and the Authorized Economic Operator (AEO) program, including how these mechanisms can support cash-flow efficiency, predictability and smoother movement of goods when supported by robust controls.

Trade agreements remain a key feature of the 2026 landscape, with potential implications for tariff planning, origin strategy and supply chain design. We examine the EU–India Free Trade Agreement and its potential role in anchoring trade relationships in a more volatile environment.

We also provide perspectives on other major developments, including the EU–Mercosur agreement and proposed changes impacting the EU Customs Union and e-commerce, where policy direction and implementation timelines will influence operating models for many businesses.

With sanctions, embargo regimes and trade remedies evolving, many organizations are strengthening screening and monitoring capabilities. This issue includes an overview of how businesses are designing and implementing automated sanctions screening solutions and the key functional components that support scalable, auditable compliance across master data and transactions.

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.

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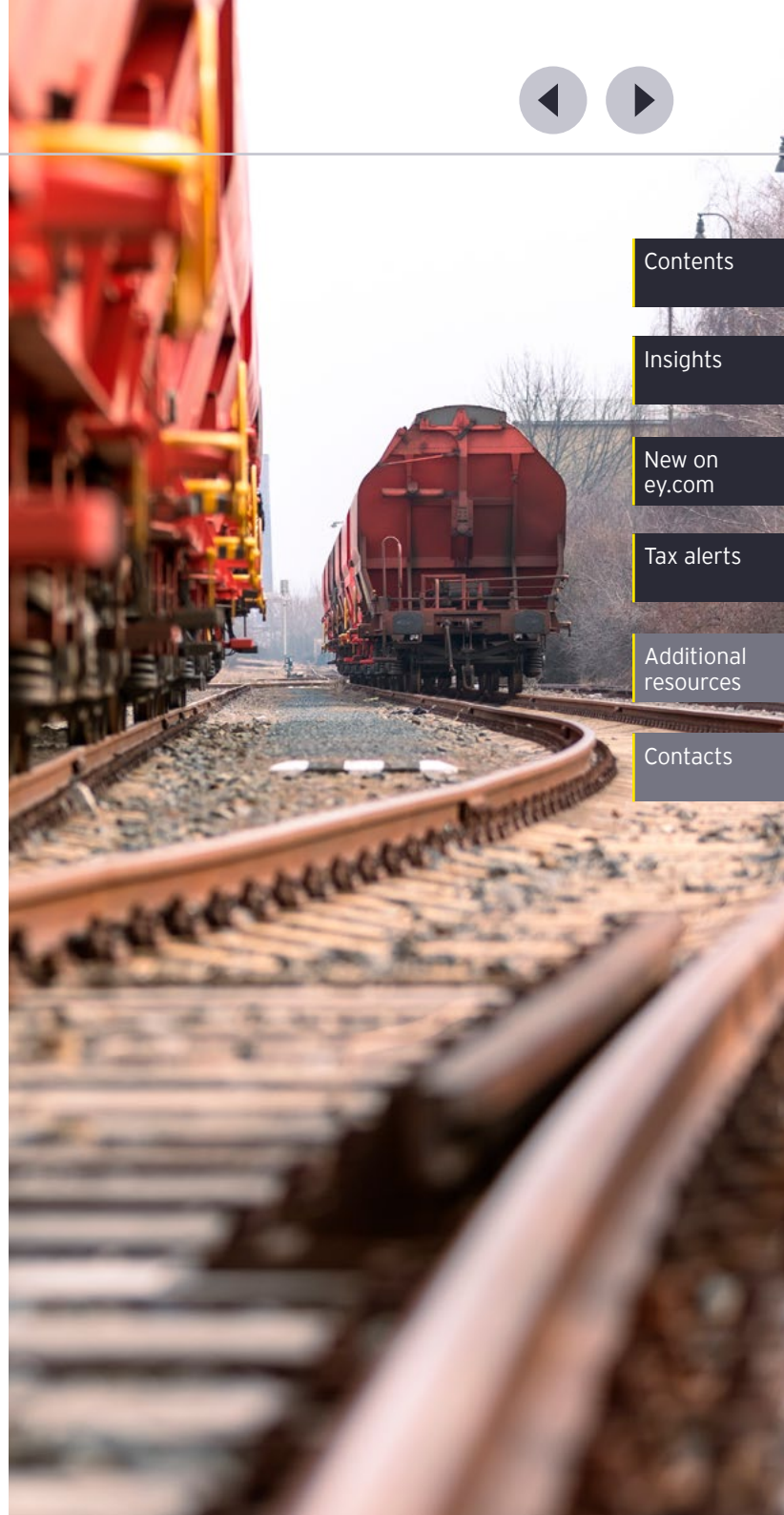
If you would like more information on any of the topics covered in this issue or how they may impact your business, please reach out to the authors listed with the articles or any of the EY Global Trade professionals listed in the contacts section of the magazine. We also welcome your feedback and suggestions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



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EU-Australia Trade Agreement: A new pillar in the trans-Pacific trade relationship

After nearly eight years of negotiations, the European Union (EU) and Australia concluded a landmark Free Trade Agreement (FTA) on 24 March 2026, signaling a strategic deepening of economic ties between two like-minded partners. The agreement, announced jointly by Australian Prime Minister Anthony Albanese and European Commission President Ursula von der Leyen in Canberra, aims to eliminate the majority of tariffs, enhance market access for goods and services, and strengthen cooperation in regulatory, sustainability and investment frameworks.

A long-awaited breakthrough

The EU and Australia relaunched negotiations in 2018, but talks stalled in 2023 over agricultural quotas and market access sensitivities. Renewed momentum in 2025–2026 – driven by geopolitical uncertainty, supply chain diversification efforts and the global revival of protectionist measures – created the conditions for a final agreement. Both parties now view the FTA as a strategic anchor in an Indo-Pacific region expected to drive much of global gross domestic product (GDP) growth in the coming decades.

Tariff liberalization and goods market access

The deal substantially liberalizes bilateral trade flows:

- The EU will eliminate around 98% of duties on originating Australian goods exports.
  - Upon entry into force, all tariffs will be eliminated immediately on manufactured goods (except steel). This includes significant tariff liberalization on machinery, electrical goods, textiles, chemicals, pharmaceuticals, metals and auto parts. Australia will also introduce a new luxury car tax category with a threshold of A$120,000 for zero-emission vehicles.
  - 94.8% of Australian agricultural exports will benefit from eliminated or reduced duties once the agreement is fully implemented. Wine, dairy, wheat, barley and seafood will enter the EU duty-free, and key agricultural exports such as beef, lamb, dairy and rice will benefit from expanded tariff rate quotas.

- Australia will remove over 99% of tariffs on originating EU goods.
  - Australia will remove duties on key EU industrial products such as motor vehicles, chemicals and machinery.
  - Upon entry into force, Australia will also eliminate duties on EU food and drink exports for all items but cheeses. Notable exports that will benefit from tariff-free treatment include wine, chocolate, pasta and canned vegetables.
- Critical minerals will see tariffs eliminated and access improved, reflecting Europe's strategic push to diversify inputs for its green energy transition and Australia's ambition to become a renewable energy superpower.

The improved terms enable Australian exporters to expand their footprint in one of the world's largest high income consumer markets, while EU exporters gain a more predictable and open path into Australia's rapidly growing sectors.

Services, mobility and investment

The FTA offers substantial new opportunities for services providers and investors:

- The EU will grant non-discriminatory treatment to Australian investors in sectors such as mining, manufacturing, energy, tourism and education, enhancing investment predictability.
- Australia will raise its foreign investment screening thresholds for private EU investors.
- Market access improvements across professional services, telecommunications, delivery, maritime transport and financial services. Mutual recognition provisions will make it easier for professionals to navigate regulatory requirements.
- The agreement includes an Innovation Mobility Pathway, enabling up to 3,000 researchers and trainee engineers per year to move between the jurisdictions.

These provisions align with broader EU and Australian ambitions to strengthen innovation ecosystems and reduce friction in skilled mobility.

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Regulatory cooperation and trade facilitation

To support efficient cross border commerce, the agreement enhances regulatory transparency and cooperation:

- Conformity assessments for certain sectors will be recognized when carried out in the EU, simplifying compliance for EU exporters to Australia.
- Both sides commit to high standards in competition policy, subsidy transparency and the enforcement of intellectual property rights.
- Alignment with the World Trade Organization (WTO) Trade Facilitation Agreement aims to reduce red tape, expedite customs procedures and strengthen supply chain resilience.

These measures reflect a broader strategy of embedding regulatory cooperation into modern trade agreements to reduce non tariff barriers.

Strategic and geopolitical implications

The deal extends far beyond tariff schedules. It represents a structural recalibration of EU–Australia trade relations:

- For Australia, the EU offers a market of roughly 450 million consumers and a pathway to reduce overreliance on its traditional trading partners.
- For the EU, the agreement strengthens economic engagement in the Indo Pacific, a region critical for supply chain diversification and green technology sourcing.
- The agreement complements broader partnerships, including a separate security and defense partnership supporting deeper alignment in a volatile geopolitical environment.

Implementation timeline

On the EU side, the negotiated draft texts will be published shortly. The texts will go through the necessary internal procedures before the Commission put forward its proposal to the European Council for the signing and conclusion of the agreement. Australia will undertake domestic processes required for signing, such as approval from the Federal Executive Council.

Once adopted by the European Council, the EU and Australia can sign the agreement. Signing is expected to occur in late 2026 or early 2027. Following signing, the agreement requires the European Parliament's consent and the Council's decision on conclusion for it to enter into force. For Australia, parliamentary processes involve scrutiny by Parliament through the Joint Standing Committee on Treaties (JSCOT) and consideration of any domestic legislation.

Once both the EU and Australia have ratified the Agreement, it can enter into force.

Conclusion

The EU–Australia FTA represents one of the most commercially significant agreements concluded by either party in recent years. For businesses, the deal offers tariff relief, expanded market access and new certainty across goods, services and investment. For policymakers, it strengthens ties between two advanced economies committed to open, rules-based trade at a time of global fragmentation.

Businesses should watch closely as the agreement proceeds to ratification, ensuring that supply chain approaches, market entry plans and compliance frameworks are aligned with the opportunities emerging from this pivotal trans Pacific partnership. ■

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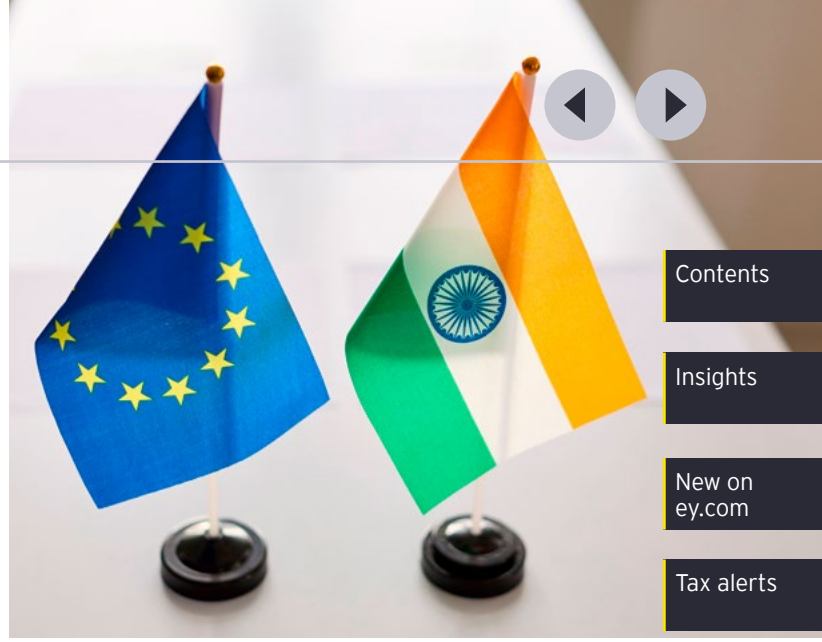
EU–India Free Trade Agreement: A new anchor in an unsettled global trade environment



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After nearly two decades of intermittent negotiations, the European Union (EU) and India announced on 27 January 2026 that they had successfully concluded talks on a comprehensive Free Trade Agreement (FTA). EU officials have described the outcome as the "mother of all deals," emphasizing not only its breadth but also its strategic significance at a time when global trade relations continue to be reshaped by geopolitical tensions and supply chain reconfiguration. The agreement links two major economic blocs that together account for around two billion people and nearly one quarter of global gross domestic product (GDP) , creating what has been called the world's largest free trade zone.

A transformative market access package

The liberalization commitments agreed by both parties are among the most ambitious the EU has concluded with any partner. India will eliminate or substantially reduce tariffs on 96.6% of EU exports by value, a shift expected to double EU exports to India by 2032 and generate approximately €4 billion in annual duty savings for European companies. In return, the EU will phase out tariffs on 99.5% of Indian goods over a seven year period, giving Indian producers broad new access to European markets across key sectors ranging from marine goods and leather products to gems, jewelry and a broad range of manufactured products.

Some of the most consequential changes arise in industries that have historically faced significant tariff barriers. In the automotive sector, for instance, India has agreed to reduce car import tariffs – previously as high as 110% – to 10% and 0% for car parts after five to 10 years, accompanied by a quota arrangement allowing up to 250,000 EU vehicles to enter the Indian market annually under preferential conditions. European wines and spirits, another long standing irritant in bilateral trade relations, will also benefit from sharply reduced tariffs as part of the agreement's comprehensive liberalization framework.

Services, mobility and the digital economy

Although the legal text has not yet been publicly released, the EU has confirmed that the agreement includes substantial provisions on services, particularly in digital trade, professional mobility and investment. India has sought greater predictability for investors and clearer rules governing data, digital services and cross border supply. In parallel, the EU has announced the establishment of a new office dedicated to facilitating the mobility of skilled Indian professionals and students, signaling the strategic importance of talent flows in the broader partnership.

These elements are expected to create a more stable regulatory environment for companies operating across both jurisdictions. Given the EU's pursuit of supply chain diversification and India's ambition to solidify its role as a global digital services hub, the services chapter may ultimately become one of the agreement's most influential components.

A deepening strategic partnership

The FTA was unveiled alongside a new EU–India security and defense partnership, underlining the extent to which economic cooperation is now intertwined with geopolitical considerations. This framework covers maritime security, defense

technology cooperation, cyber and hybrid threats, space collaboration and counterterrorism, reflecting the growing alignment of the EU and India on security concerns in the Indo Pacific and beyond.

Leaders at the 16th EU-India Summit stressed a shared commitment to democratic values, pluralism, the rule of law and the broader rules based international order. These political underpinnings are particularly significant given the current global environment, marked by conflict in Ukraine, instability in West Asia and continuing disruptions to critical supply routes. India's efforts to deepen ties with the EU are part of a wider strategy to reinforce strategic relationships amid these global pressures, as also highlighted in broader geopolitical reporting.

Economic significance and outlook

Even prior to the FTA, EU-India trade amounted to €180 billion annually, with more than 6,000 European companies active in India and supporting approximately 800,000 European jobs. The agreement is expected to accelerate economic integration further once it completes legal scrubbing and ratification procedures.

On the EU side, the negotiated draft texts will undergo a full legal revision process and be translated into all official EU languages before the European Commission formally submits the proposal to the Council for signature and conclusion. Following Council adoption, the EU and India can proceed to sign the agreement. After signature, the European Parliament must give its consent, after which the Council can take its final decision on conclusion, enabling the agreement to enter into force. Entry into force will ultimately require ratification by India as well; once both sides have completed their respective internal procedures, the agreement can become operational.

Implications for business

For multinational companies, the agreement presents both immediate opportunities and the need for preparation. Significant tariff reductions will require reassessment of customs classifications, supply chain design and rules of origin strategies. Companies active in automotive, chemicals, industrial goods and digital services should expect meaningful changes to market conditions. The services and mobility commitments may open new pathways for investment structuring and cross border talent deployment.

As with other recent large scale EU trade agreements, businesses should begin scenario planning well ahead of the agreement's entry into force, both to capture first mover advantages and to ensure compliance with new regulatory, sustainability and digital governance standards that may be phased in alongside tariff liberalization.

Conclusion

The EU-India FTA represents more than a major economic agreement – it is a strategic re anchoring of two partners seeking deeper resilience, broader cooperation and renewed commitment to open, rules based trade. The deal comes at the time of global uncertainty, and at the same time creates political and economic ties between two of the world's most important economic regions. As the agreement moves toward ratification and implementation, businesses should prepare for a significantly reshaped landscape in EU-India trade relations, one that promises growth, diversification and new strategic possibilities for the decade ahead. ■

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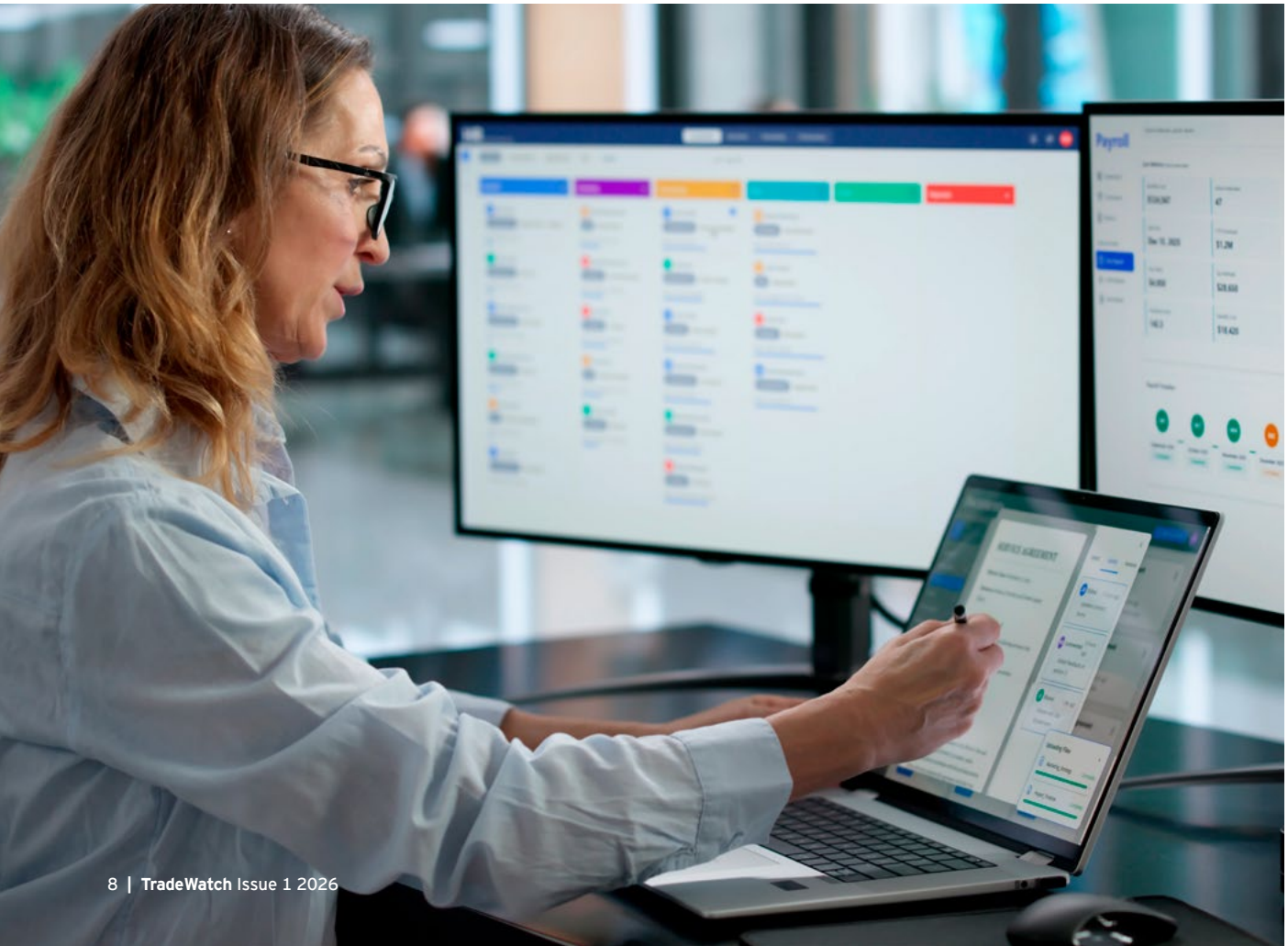
Designing and implementing an automated sanctions screening technology solution



As sanctions and embargo regimes continue to evolve in scope and complexity, organizations are designing and implementing automated screening solutions to manage exposure to restricted parties, sanctions and prohibited activities and to remain compliant.

In today's environment, effective screening starts with identifying and understanding the key components that enable the screening of critical business processes such as business partner master data and procure-to-pay (PTP) and order-to-cash (OTC) transactions. Having a flexible global trade management (GTM) software platform that can be designed and configured to meet evolving requirements is essential to support scale, velocity and evolving risk across the enterprise.

This article will provide an overview of the key functions that form an industry-agnostic automated detailed screening solution that can be scoped and scaled to meet the business needs and requirements of many organizations.

Automated sanctions screening solution components

Typical GTM software applications offer standard out-of-the-box automated sanctions screening functionality that can be designed and configured in many ways to meet an organization's needs and requirements. They also have the capability to integrate with various enterprise resource planning (ERP) systems and other business applications through electronic interfaces which will vary in complexity depending on the scope, scale and design of the interfaces.

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Let us discuss the key functions that make up an automated screening solution. To achieve comprehensive coverage, these functions should be designed as tightly coupled, components that integrate seamlessly with ERP systems, business partner master data systems, procurement platforms, supply chain and logistics applications, and other pay-in/pay-out systems. This approach allows organizations to support real-time screening of new partners and transactions, batch screening and delta screening when sanctioned party list changes occur.

A key thing to understand is that the capabilities described below are optional depending on your organization's risk profile and appetite. Determining the components to implement in an automated screening solution should be a collaboration between internal global trade practitioners, legal, global/regional business process owners, master data management/governance teams and what makes sense given your organization's situation and vision.

Ad hoc screening

Ad hoc screening serves as a critical due diligence measure conducted before entering into business relationships with potential partners. Unlike automated, ongoing monitoring, ad hoc screening is typically conducted on a case-by-case basis, often prior to formally onboarding a business partner into the organization's master data system.

This process is executed manually through the user interface of a GTM software application. In some organizations, ad hoc screening is facilitated through a company intranet portal that is integrated with the GTM software, allowing authorized users to conduct one-off screenings efficiently. This approach reduces the number of users accessing the GTM software, reducing security risks and reducing the cost of ownership of the software. By leveraging ad hoc screening, organizations can proactively identify potential compliance risks associated with new or infrequent business partners before any commitments are made.

Master data screening

Master data screening is a fundamental compliance step performed when creating or updating records for business partners — such as suppliers, vendors, customers, service providers and banks — in an organization's ERP system. This process ensures that all critical entities are vetted against relevant sanctions and restricted party lists during their initial entry and whenever their information changes.

Integration with GTM software allows for seamless synchronization of business partner data, enabling organizations to conduct "delta screening" whenever there are updates to official lists. By systematically screening master data, companies can proactively manage compliance risks and ensure ongoing adherence to regulatory requirements.

Transaction screening

Transaction screening is a critical compliance process that involves evaluating business transactions — such as purchase orders, sales orders, deliveries, shipments and advanced shipment notices — against relevant sanctions and restricted party lists. This screening can occur in real time; asynchronously on a first-in, first-out (FIFO) basis; or in scheduled batches, depending on organizational requirements and system capabilities.

By integrating transactional screening at key touch points within both the OTC and PTP processes, organizations can proactively identify and manage potential compliance risks associated with specific transactions. This approach helps ensure that every transaction is vetted before completion, safeguarding the company from inadvertently engaging with prohibited parties or violating regulatory requirements.

Delivery blocks

Delivery holds and blocks are essential controls within the master data and transaction screening process designed to manage compliance risks while balancing business continuity. There are two main types:

- **Soft blocks:** These are applied earlier in the screening process, typically during the review of purchase orders or sales orders. Soft blocks allow transactions to continue flowing through the system and process without causing major disruptions to business operations. Their primary purpose is to flag potential issues early, enabling proactive remediation while reducing any impact on the business.
- **Hard blocks:** These are applied later in the process, often at the stage of deliveries or shipments. Hard blocks completely stop the affected transaction, requiring review and remediation before proceeding or releasing the transaction. This approach helps prevent the shipment of goods to restricted or prohibited parties, reducing the risk of noncompliance and engagement with bad actors.

By leveraging both soft and hard blocks at strategic points in the screening process, organizations can efficiently screen transactions, ensure compliance with regulations and safeguard business interests without unnecessarily impeding operational flow and velocity.

Alerts and case management

Alerts and case management play a crucial role in the compliance screening process by enabling organizations to efficiently track, manage and resolve potential compliance issues. When a transaction or business partner triggers a match against a sanctions or restricted party list, the system generates an alert to notify relevant stakeholders of the potential risk.

These alerts are communicated through various channels, including email notifications and the user interface within the GTM or ERP system. Typically, the user interface in the GTM system provides a centralized dashboard where compliance teams can review, prioritize and work through open alerts. This allows for efficient investigation and resolution, ensuring that each flagged item receives proper attention.

Case management functionality supports the escalation of complex or high-risk alerts to designated compliance officers or management for further review. The system tracks each case throughout its lifecycle, documenting the actions taken, decisions made and final outcomes. This structured approach ensures accountability, transparency and auditability within the compliance process.

By using robust alerts and case management tools, organizations can promptly address compliance concerns, reduce the risk of regulatory violations and prove effective internal controls to regulators and auditors.

Analytics, reporting and audit trails

Analytics, reporting and audit trails are fundamental components in compliance screening and transaction monitoring processes. They enable organizations to gain insights into their operations, assess the effectiveness of controls and find trends or anomalies that may indicate compliance risks. Most GTM software packages include basic analytics, reporting and audit trail functionality out of the box, but they may require enhancements to meet an organization's needs and requirements.

- **Analytics:** Advanced analytics tools allow businesses to examine screening outcomes, alert volumes, case resolution times and patterns across transactions or business partners. Using data visualization and statistical analysis, companies can proactively find areas for improvement, improve workflows and monitor compliance performance.
- **Reports:** Comprehensive reporting capabilities provide stakeholders with regular updates on key metrics, such as the number of screened transactions, alerts generated, cases resolved and compliance exceptions. Reports can be tailored to different audiences — such as management, regulators or auditors — to prove the effectiveness of internal controls and support decision-making.
- **Audit trails:** Audit trails document every action taken within the compliance screening process, from alert generation to case resolution. This is typically included with most GTM software packages and ensures accountability and transparency, allowing organizations to trace decisions, review historical activity and respond to regulatory inquiries with confidence.

By integrating robust analytics, reporting and audit trail capabilities, organizations can strengthen their compliance framework, support regulatory requirements and continuously improve their screening and monitoring processes.

Process integration and standardization

Process integration and standardization are essential for harmonizing business operations across a global enterprise. By setting up a unified global template, organizations can implement consistent screening processes that ensure alignment around a common set of standards and procedures. This approach enhances efficiency, helps regulatory compliance and streamlines transaction monitoring throughout the organization.

At the same time, it is critical to address unique regional or country-specific requirements. Localized templates enable the adaptation of the global standard to meet particular conditions or regulations, such as those related to certain geographic areas or issues like forced labor. Through this balance of standardization and localization, businesses can maintain control, improve risk management and ensure that compliance measures are both effective and relevant across all operational regions.

Systems integration to minimize screening gaps

To effectively reduce risk and strengthen compliance, it is essential to analyze your business systems and process landscape to find all critical systems and workflows that should be integrated into your automated screening platform. Core systems often include ERP (Enterprise Resource Planning) and CRM (Customer Relationship Management), master data management, pay-in/pay-out systems and supply chain or logistics solutions, among others. By connecting these systems, organizations can ensure that screening is consistently applied to all relevant business partner profiles, transactions and operational data.

Smooth integration helps prevent gaps where unscreened data or transactions might otherwise bypass compliance controls. This unified approach supports a common set of standards and processes across the enterprise while also allowing for the adaptation of region- or country-specific requirements when necessary. Comprehensive systems integration enables organizations to keep a robust, detailed screening process that is both efficient and aligned with regulatory expectations, significantly reducing risk exposure and enhancing overall compliance.

Potential business outcomes

Automating sanctions screening offers other benefits beyond simply closing compliance gaps. While enhancing compliance by reducing unscreened transactions is a primary advantage, other positive outcomes can be realized:

- **Consistent yet adaptable screening processes:** Establishing global standardized screening practices, with the flexibility to tailor processes for regional and country-specific requirements, delivers broader compliance coverage. This approach helps organizations effectively manage risks across all operational areas by ensuring both the consistency and relevance of screening protocols.
- **Enhanced intelligence and visibility:** By using integrated reporting, analytics and audit trail capabilities, organizations gain deeper insight into business activities. These tools provide greater transparency and allow for informed decision-making, strengthening oversight and supporting regulatory obligations.
- **Lower technology ownership costs:** Implementing a unified GTM software platform serves as the core for sanctions screening and can be scoped and scaled to support other trade and customs functions, such as import/export controls screening, trade document generation and electronic customs filing. This consolidation reduces the need for multiple GTM systems, streamlining operations and lowering overall technology expenses.

In summary, designing and implementing effective automated sanctions screening not only improves compliance and risk management but also delivers operational efficiencies, cost savings and valuable business intelligence. ■

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EU–Mercosur Agreement: Trade liberalization and the road ahead for businesses

The European Union (EU) formally approved the conclusion of the EU–Mercosur trade agreement, marking a decisive milestone after more than two decades of negotiations. From a Mercosur perspective, the agreement is expected to expand access to the EU market for agri-food exports and support investment, industrial modernization and integration into global value chains. While the agreement is still subject to parliamentary approval, it is opening a significant window of opportunity for companies operating across both blocs.

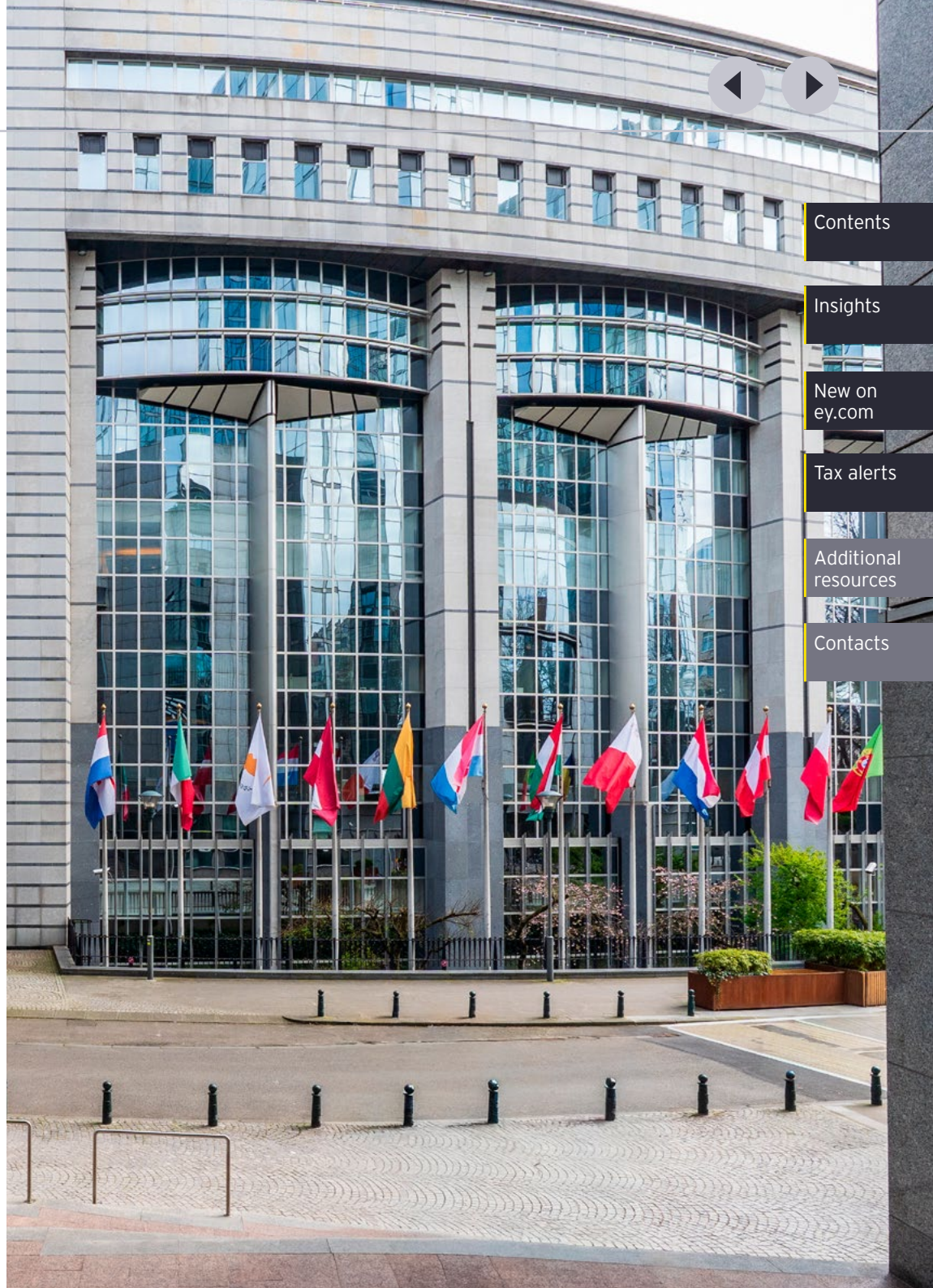
Recent developments

On 9 January 2026, the ambassadors of the 27 Member States of the EU approved, by qualified majority, the conclusion of the trade agreement with Mercosur, bringing to an end a negotiation process that lasted 25 years.

The decision, taken in Brussels, represents a historic milestone for economic integration between the two blocs and paves the way for the formal internalization of the agreement between Mercosur and the European Union.

The agreement was formally signed on 17 January 2026, and while the ratification has been completed on the Mercosur side, its application within the European Union will depend on institutional procedures, including parliamentary review.

Implications for business This set of measures establishes a solid foundation for economic and regulatory integration between the blocs while also requiring protection mechanisms for sensitive sectors such as agriculture which were recently addressed through specific safeguards to manage impacts and ensure balance in trade relations.



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This set of measures establishes a solid foundation for economic and regulatory integration between the blocs while also requiring protection mechanisms for sensitive sectors such as agriculture which were recently addressed through specific safeguards to manage impacts and ensure balance in trade relations.

To manage impacts on European producers, agricultural safeguards were included allowing for the suspension of tariff preferences in the case of significant market distortions, in addition to sanitary and environmental controls and the creation of sectoral crisis funds.

There was a reduction in the threshold that triggers investigations and a shortening of the deadlines for their conclusion, enabling faster application of corrective measures, such as temporary tariffs or volume limits. Regulatory requirements were also included, obliging Mercosur to adopt standards equivalent to those of the EU regarding pesticides, animal health and traceability.

Although not formally included in the agreement text, these rules will be applied through European regulations, ensuring flexibility.

From an economic perspective, the agreement is considered strategic for both blocs. For the European Union, it expands export opportunities for industrial products such as automobiles, machinery, pharmaceuticals and beverages. For Mercosur, it facilitates access to the European market for agricultural products and stimulates investment in infrastructure, industry and technology, fostering modernization of the industrial base and integration into global value chains.

Although approved, the process still faces political challenges. Countries such as France, Poland, Austria, Ireland and Hungary expressed opposition, and Belgium abstained from the vote. The review by the European Parliament and potential national ratifications will be critical steps for the agreement's entry into force.

Mercosur–European Union negotiation: technical overview

The Mercosur–EU agreement is a trade and cooperation treaty that integrates two of the world's largest economic blocs, involving approximately 718 million people and a combined GDP of US$22 trillion. After more than two decades of negotiations, its conclusion represents a strategic advance in a context shaped by the post-pandemic environment, climate crisis, rising protectionism and geopolitical tensions.

Key highlights

- Tariff liberalization: gradual elimination of tariffs on up to 91% of European goods and 95% of Mercosur goods, with timelines ranging from four to 15 years (automotive sector: up to 30 years).
- Trade facilitation: modern rules of origin, self-certification, reduction of non-tariff barriers and mutual recognition of Authorized Economic Operators (AEOs).
- Sustainability: environmental and social commitments, with integration of production chains aimed at decarbonization.
- Sectoral safeguards: differentiated schedules for the automotive sector and mechanisms addressing critical minerals.
- Cooperation and investment: a European package to support implementation and promote industrial modernization in Mercosur.

Next steps

Following provisional approval by the Council of the European Union, the agreement enters a decisive phase toward its effective entry into force:

- **EU:** review by the European Parliament and, potentially, ratification by national parliaments.
- **Mercosur:** approval by the Congresses of Brazil, Argentina, Paraguay and Uruguay.
- **Provisional application:** the blocs may anticipate economic effects — particularly tariff reductions — prior to full ratification.
- **Full entry into force:** only after all internal approvals in both blocs.

Call to action

With approval by the Council of the European Union and signature of the parties, companies operating between the two blocs should anticipate the agreement's entry into force to accelerate benefits and reduce risks. This goes beyond a simple assessment of tariff reductions. Companies should:

- Map their global value chains: identify operations, footprint, industrial processes, distribution strategies and suppliers to assess compliance with rules of origin, which will be essential to effectively benefit from tariff reductions.
- Build appropriate processes: incorporate origin management as an intrinsic activity within business processes to ensure reliability and robustness once the agreement enters into force.
- Assess opportunities related to operating models: evaluate global structures and potential reorganizations in advance, considering functions and risks to ensure compliance with transfer pricing rules and full utilization of the agreement's benefits. ■

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The EU–Mercosur Agreement: Tariff policy opportunities, legal ambiguities and practical limitations

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Introduction: a breakthrough with the brakes applied

In January 2026, the European Union (EU) and the Mercosur countries – Brazil, Argentina, Paraguay and Uruguay – signed the Partnership Agreement (EMPA) alongside an Interim Trade Agreement (ITA). The step represents the culmination of more than two decades of negotiations, yet it comes with considerable political and legal friction. Within the EU, the required political approval was secured only through a narrow majority. Several Member States – including France, Poland, Austria, Ireland and Hungary – voiced strong opposition due to concerns over competitive risks to European agriculture, divergences in environmental and production standards, and doubts about the democratic legitimacy of provisional application without full national scrutiny. Italy's stance shifted only later, following additional consultations.

Political and legal controversies on the EU side

These divisions carried over into the European Parliament, which rejected the agreement in its current form owing to its division into two legally distinct instruments. The design aims to permit provisional application of the trade-related sections without waiting for ratification by all national parliaments. Critics argue that this may contravene Article 218 TFEU[1] because the agreement qualifies as a mixed agreement involving shared competences – including investment protection, sustainable development and regulatory cooperation – that ordinarily require national parliamentary participation.

The European Court of Justice is now expected to assess whether this structure constitutes an impermissible circumvention of Member State prerogatives and whether provisional application of the ITA without full institutional approval is lawful.

1 Treaty on the Functioning of the European Union. Find it here.

Until the Court delivers its ruling, legal uncertainty will delay the start of tariff reductions. The EU Commission has informed that the provisional application is nevertheless intended, possibly starting from 1 May 2026.

Understanding the economic importance of the EU–Mercosur trade deal

Mercosur is a South American common market with a population of around 270 million, boasting significant raw material, agricultural and industrial capacities. The Mercosur economy is the sixth largest outside the EU, with an annual GDP of about €2.7 trillion. The EU is Mercosur's second largest trading partner in goods, with exports of €57 billion in 2024, with Brazil being the EU's largest trading partner within the bloc.

In 2024, EU imports from Mercosur amounted to €56 billion, primarily consisting of mineral oils, coffee and cocoa, soy and animal feed, ores/metals and oilseeds. EU exports reached €55.2 billion, dominated by pharmaceuticals, machinery and vehicles. According to the European Commission, expected long term gains include export growth, projected tariff savings exceeding €4 billion annually and improved access to critical raw materials.

Tariff liberalization in two stages

Stage one: time based tariff dismantling

Tariff liberalization under the EU–Mercosur Agreement follows a structured timetable rather than a one-size-fits-all approach. Each tariff line is allocated to a dismantling category that determines the timing and pace of reductions. Many industrial products benefit from immediate elimination or phased reductions over five, seven or 10 years. More sensitive sectors – notably automotive – are subject to extended phase outs over 15, 18 or even 30 years.

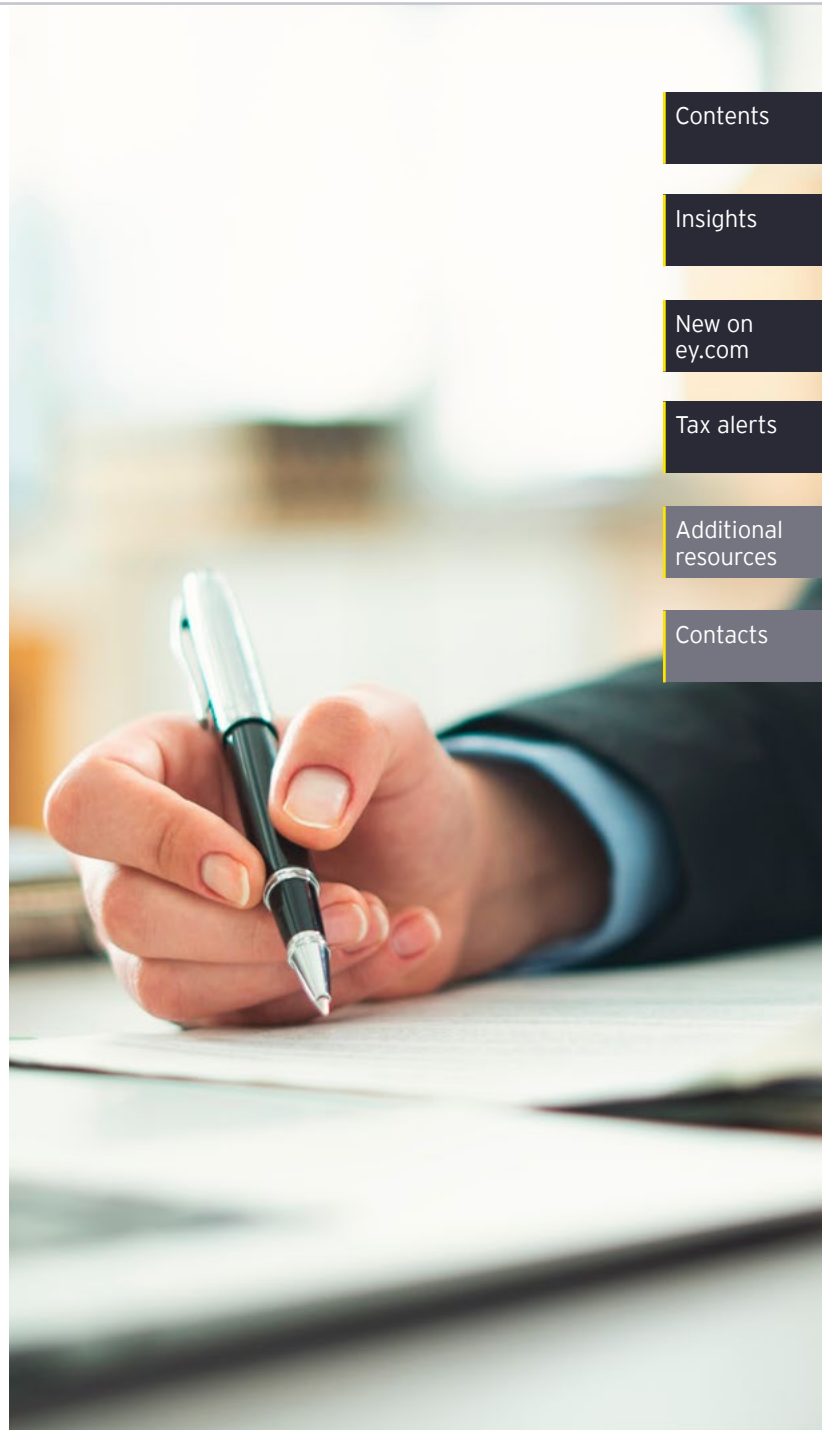
For EU exporters of machinery, chemicals and pharmaceuticals, this typically translates into early reductions followed by annual linear cuts until duties reach zero. Importantly, this stage is entirely quantity independent: every qualifying import benefits from the applicable reduced rate as long as the rules of origin are met.

Stage two: quantity-based liberalization via TRQs

For sensitive agricultural sectors, the agreement employs tariff rate quotas (TRQs) to shield EU markets from sudden surges. Within these quotas, reduced or zero tariffs apply; outside them, the EU's Common Customs Tariff – often prohibitively high – remains in force. The agreement foresees, for example, 99,000 tons of beef at 7.5%, duty free quotas of 180,000 tons for poultry, large quotas for industrial and non industrial ethanol, and phased TRQs for sugar and honey. Even after full implementation, market access for these categories will remain capped.

Rules of origin and regulatory conditions

Preferential tariff treatment will apply only when products meet the agreement's rules of origin, which may require value added thresholds or changes in tariff classification combined with substantial processing. However, securing preferential origin



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is only one part of the equation: compliance with EU health, safety and environmental standards and unilateral instruments such as the Anti Deforestation Regulation (EUDR) and the Carbon Border Adjustment Mechanism (CBAM) will remain decisive factors for effective market access.

The agreement's "Trade and Sustainable Development" chapter obliges both parties to uphold key labor and environmental commitments, including compliance with the Paris Agreement, although no sanctions mechanism exists. Disputes are limited to consultations and expert review.

Complexity on the Mercosur side

Even with reduced tariffs, market access in Mercosur may remain challenging due to internal taxation and regulatory burdens. Brazil illustrates this complexity: importers must navigate federal IPI industrial tax, Program of Social Integration (PIS)/Contribution for the Financing of Social Security (COFINS) social contributions and the state-level ICMS system, all of which may apply cumulatively and vary by state. These systems will operate alongside Brazil's ongoing tax reform (CBS/IBS) until 2033, complicating landed cost calculations and requiring detailed product specific modeling.

How companies can prepare

To fully benefit from the agreement once in force, EU exporters should take a structured approach:

- **Portfolio and tariff analysis** – Companies should map their product classifications and identify where tariff reductions offer strategic advantages.
- **Origin and supply chain planning** – Determining whether preferential origin can be achieved on a product by product basis is essential. Adjustments to sourcing, production or supplier networks may be needed.
- **Economic modeling** – Tariff savings should be evaluated alongside local taxes and non tariff charges, particularly in Brazil.
- **Transition period planning** – Long dismantling periods require strategic pricing and market entry sequencing.
- **Operational readiness** – Customs teams must implement strong origin management processes, including accurate supplier declarations and ERP updates.
- **Scenario planning** – Given legal uncertainty surrounding provisional application, companies should prepare decision trees for how and when they will apply preferences.
- **Coordination with local actors** – Close cooperation with importers, distributors and customs agents in Mercosur markets will be essential to ensure preference claims are properly made and accepted.
- **Regulatory compliance** – Sustainability, labeling and technical requirements often determine real market access and should be continuously monitored.
- **Ongoing monitoring** – Political developments, TRQ utilization and regulatory changes should be reviewed regularly to ensure sustained compliance and benefit optimization.

Conclusion

The EU-Mercosur Agreement stands at a critical juncture. Economically, it offers one of the most significant tariff liberalization opportunities of the coming decade. Politically and legally, however, its future remains uncertain pending judicial clarification and renewed parliamentary scrutiny. Businesses that start preparing now – by assessing origin scenarios, modeling economic impacts and building operational readiness – will be best placed to capture the agreement's potential once it finally enters into force.

We would be pleased to support you in translating these strategic considerations into a tailored implementation program for your organization. ■

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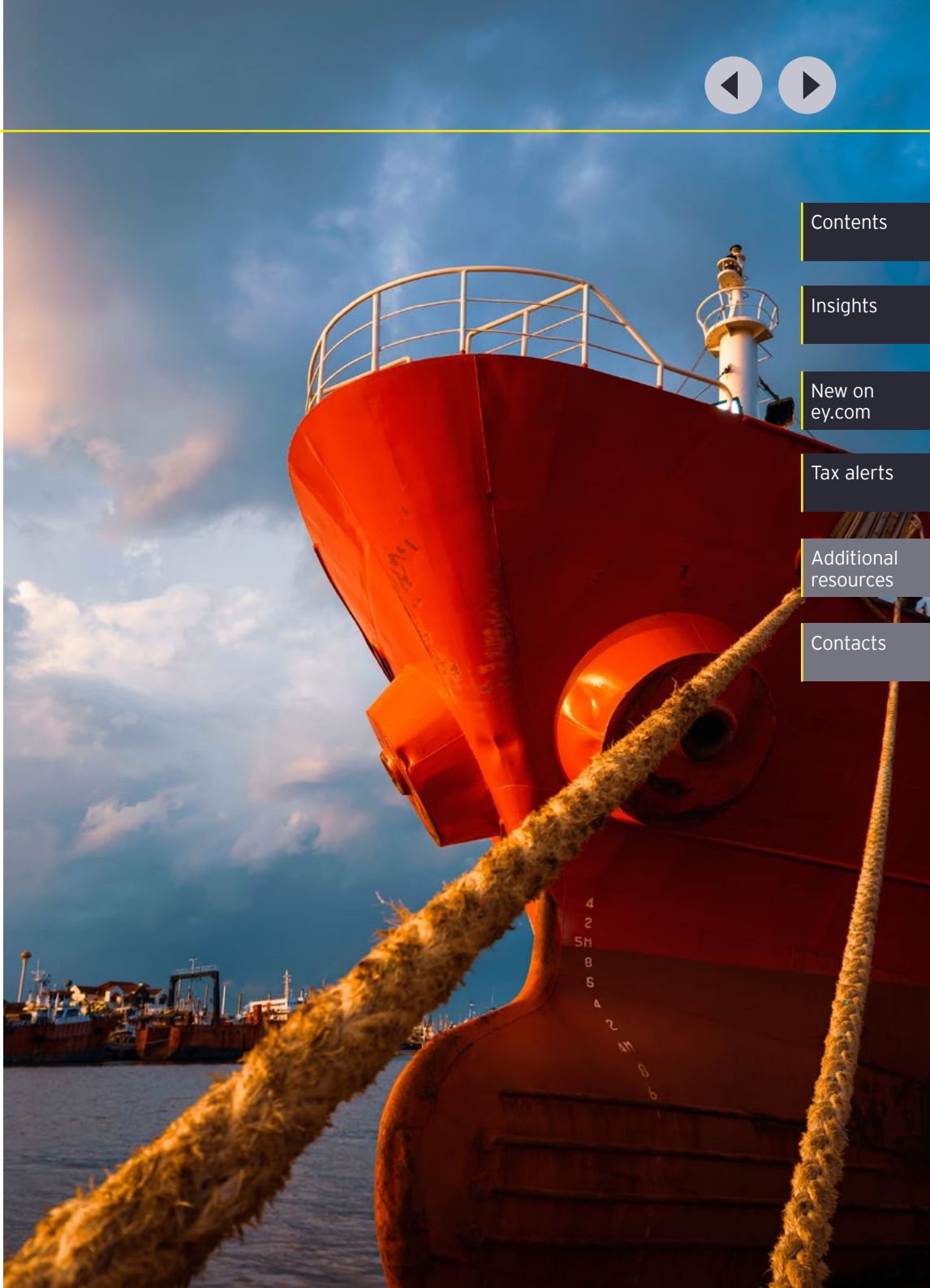
AEO program in Brazil: New certification levels may bring competitive advantage



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The Brazilian Federal Revenue Service is working on new normative instructions to enhance the Authorized Economic Operator (AEO) Program, which brings opportunities for companies engaged in foreign trade to strengthen their competitive position in Brazil. The proposals introduce new AEO certification levels and benefits for import tax deferral, aligning the program with recent tax reform legislation. Although the measures are still subject to further regulation, they emphasize a policy toward a compliance-based model that rewards risk governance and cooperation and position AEO certification as a potentially strategic mechanism for cash flow management.

Background

The Brazilian AEO Program has consolidated its position as one of the core pillars of Brazil's customs policy, and it aims to facilitate international trade and strengthen supply chain security. Aligned with international standards, the program was designed to develop a relationship of transparency and cooperation between the Brazilian Federal Revenue Service (RFB) and private-sector operators that demonstrate a high level of compliance and governance.

AEO certification is granted to companies that meet program requirements related to customs, tax and fiscal compliance, risk management, internal controls and supply chain security. These requirements are set out in Brazilian legislation, which instructs the certification process and also the monitoring of certified operators, reinforcing the dynamic and continuous nature of the program.

In recent years, the AEO Program has undergone relevant enhancements. New requirements and administrative procedures were intended to increase predictability for applicants and certified operators while maintaining alignment with international customs governance standards.

Recent updates on the program

The AEO-Integrated framework has also expanded the program's scope, including the participation of other government agencies involved in foreign trade controls. This innovation allows additional trade benefits granted by these agencies, such as prioritized reviews on imports, simplified documentation requirements and more operational predictability during the customs clearance process.

In parallel with these changes, in 2025, Brazil enacted Complementary Law No. 214 introducing the consumption tax reform, which brought provisions linking AEO certification to tax benefits. As the tax reform launches new taxes in Brazil, AEO operators may have the possibility of deferred payment of import taxes and the suspension of IBS and CBS on certain export-related transactions, particularly for certified trading companies.

Although the application of these benefits still depends on further regulatory guidance, the subsequent legislation enacted by Brazilian authorities has placed the AEO Program within a broader structure of tax compliance alongside other initiatives such as the Confia and Sintonia Programs.

What businesses need to know

Confia is a Brazilian tax compliance program focused on large taxpayers with existing levels of governance and internal control and is designed to promote transparency and risk controls through voluntary participation and ongoing engagement with tax authorities. Sintonia is another tax program that classifies taxpayers based on criteria such as filing accuracy, consistency of information and payment regularity, granting differentiated treatment and priority services to those with higher compliance ratings, particularly the A+ classification. Both programs are recognized as part of Brazil's federal "compliance pillar" alongside the AEO Program.

The innovation brought by Brazilian authorities consists of:

- Creation of the AEO-Essential Compliance level: specifically designed for trading companies engaged in export activities, with admission based on criteria that simplify the entry into the program. Continued participation at this level would be conditional upon compliance with additional requirements, assessed throughout the operator's participation in the program.
- Creation of AEO-Excellence Compliance level: this modality is focused on operators already certified as AEO that are also participants in the Confia Program or hold an "A+" rating under the Sintonia Program. This level is the requirement to enjoy the possibility of deferral of import taxes.
- This framework marks a shift of the AEO Program to a new phase in which its benefits have clearly moved beyond reputational or customs and trade facilitation to include cash flow advantages for taxpayers.

Next steps

- **Revisit AEO strategy**
  AEO certification should be reassessed as a strategic tool capable of granting tax deferral and cash flow benefits.
- **Prepare for progression to higher certification tiers**
  AEO-certified operators may consider whether their governance maturity supports progression to the proposed AEO-Excellence Compliance level, including alignment with Confia or Sintonia "A+" requirements.
- **Strengthen governance**
  Early investment in tax and customs governance and risk management can drive companies to respond more efficiently to authorities' eventual updates on the program. ■

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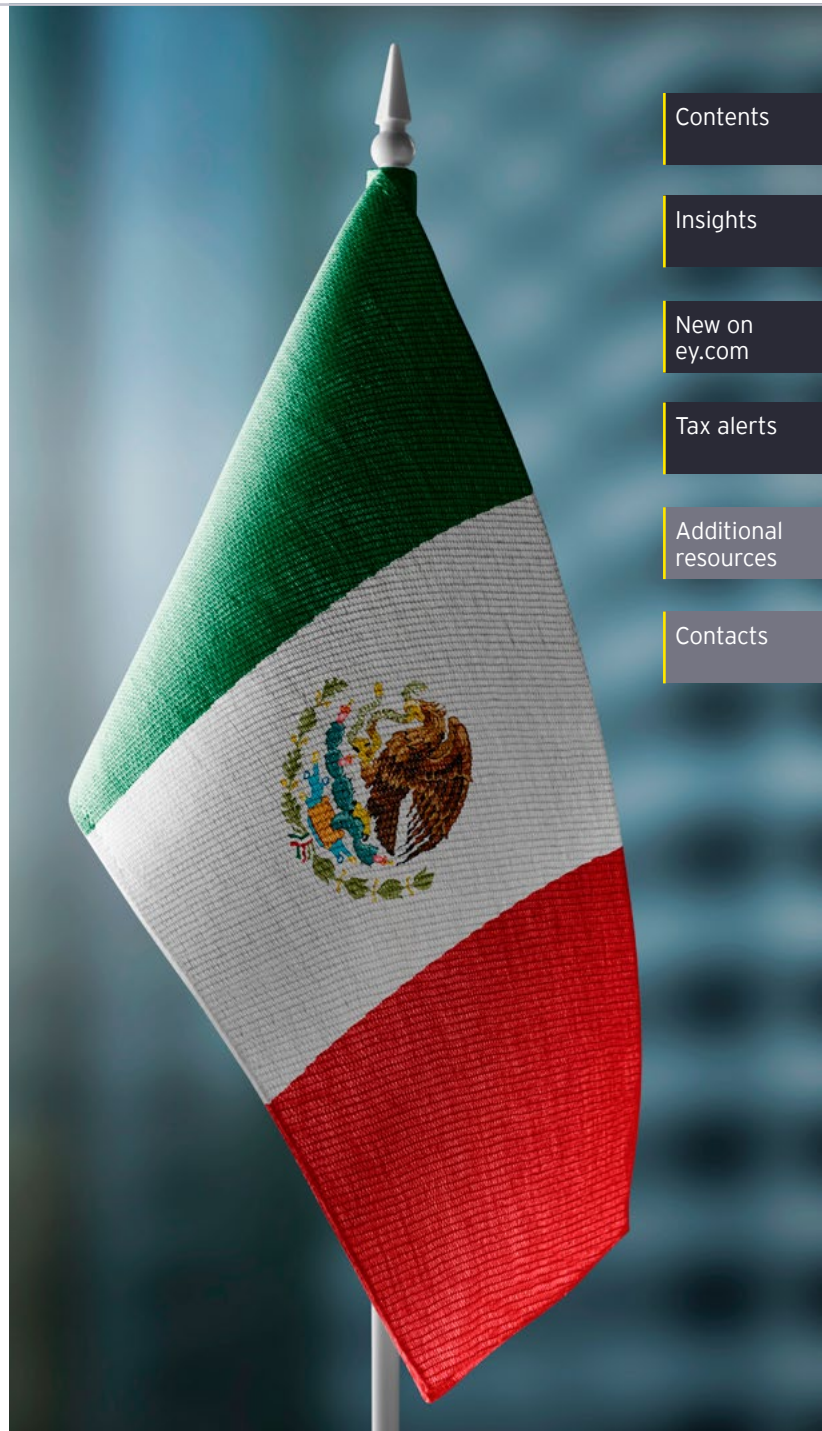
Heightened scrutiny in Mexico: New materiality requirements and mandatory electronic customs valuation reporting



Mexico's 2026 customs reforms signal a shift from traditional document-based compliance toward operational traceability in customs transactions. New materiality requirements and mandatory electronic customs valuation reporting significantly expand the documentation and data management responsibilities for companies operating in Mexico.

For many years, customs compliance in Mexico has largely been treated as a documentation exercise: maintain the required records and produce them if authorities request them.

Recent reforms to Mexico's customs legal framework signal that this approach is no longer sufficient.

Effective 1 January 2026, Mexico implemented one of the most significant updates to its customs regime in nearly a decade. While initially perceived as a routine legislative revision, the reform introduces a structural shift in how authorities expect companies to substantiate and report their customs operations.

Under the updated framework, customs documentation is no longer limited to traditional trade records. Authorities now expect companies to demonstrate the operational substance behind each transaction, linking customs entries to the financial, contractual and operational elements that made the transaction possible.

In practical terms, the customs declaration becomes the reference point against which multiple categories of operational and financial documentation must be traceable. In practice, this marks a shift toward full operational traceability, not just document retention as companies traditionally understood it.

This article examines two developments that are expected to have the most immediate operational impact for multinational companies operating in Mexico:

- New materiality and operational substantiation requirements for customs transactions.
- Mandatory electronic reporting of customs valuation documentation effective 1 April 2026.

Together, these measures reflect a broader shift in Mexico's customs oversight model, one that combines expanded documentation expectations with increased digital transparency.

Mexico is moving from document-based compliance to transaction-level operational traceability.

Reinforced materiality requirements: expanding the customs file

Mexican customs legislation has long required importers and exporters to maintain an electronic file for each transaction. Traditionally, this file included core trade documents such as the customs declaration, commercial invoice, transport documentation, certificates of origin and the value manifest.

The 2026 reforms significantly expand the scope of this requirement.

The key question for authorities is no longer simply whether a transaction occurred but whether the company can demonstrate the operational substance behind it.

Companies must now maintain documentation demonstrating the operational elements involved in executing each customs transaction. The concept of the customs file therefore extends beyond traditional trade documentation and now includes evidence of the financial, contractual, operational and labor resources used in the transaction.

In practice, the documentation expected by authorities may include:

- Contracts, purchase orders and documentation supporting the commercial terms of the transaction.
- Evidence of payment and financial flows related to the operation.
- Documentation demonstrating the facilities, equipment or infrastructure used in handling or producing the goods.
- Records identifying employees involved in the relevant operational activities and corresponding payroll documentation.
- Technical documentation allowing authorities to identify and classify the goods, such as technical specifications or product catalogs.
- Accounting and inventory records supporting the treatment and traceability of the goods.

These documents must generally be retained for a period of at least five years and made available to customs authorities upon request.

Operational implications for multinational companies

The scope of the materiality requirements substantially increases the volume and diversity of documentation associated with each customs transaction.

Supporting records now originate across several functions within an organization, including Finance, Human Resources, Procurement, Operations and Legal. As a result, customs compliance can no longer be managed solely within the trade compliance function.

Organizations that continue to maintain documentation in functional silos may face challenges when authorities request complete documentation packages. In many cases, companies will need to strengthen internal processes to ensure that documentation generated across different departments can be linked to specific customs transactions.

In many companies we work with, this fragmentation becomes evident as soon as an audit request arrives. Teams realize the information exists, but not in a form that can be easily assembled.

As companies adjust to these expectations, many are beginning to adopt technology-enabled tools that help automate document compilation and validate the coherence of supporting records. These solutions typically centralize documentation, verify

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completeness in real time and detect inconsistencies between operational, financial and customs data, capabilities that are becoming increasingly relevant under the expanded materiality standard.

Additional requirements for virtual operations

The reforms also introduce important implications for virtual transactions carried out under Mexico's IMMEX program.

Virtual operations allow temporarily imported goods to be transferred between program participants without a physical cross-border movement. Historically, these transactions were subject to less extensive documentation requirements than traditional import or export operations.

Under the updated framework, companies must retain documentation covering the entire lifecycle of the transaction, from the initial temporary importation through production activities and the subsequent virtual transfer.

Authorities may request documentation demonstrating production processes, inventory movements and operational use of the goods, as well as supporting documentation reflecting the broader materiality requirements described above.

The manufacturer's declaration

Because virtual operations often involve multiple independent companies, sharing full documentation packages may present practical challenges, particularly when sensitive information is involved.

To address this issue, the reform allows the use of a manufacturer's declaration. Under this mechanism, the virtual exporter provides a signed declaration describing the productive process and confirming that the underlying documentation exists and will be provided to authorities upon request.

Additionally, the regulation requires that the production process described by the virtual exporter be consistent with the manufacturing or operational activities of the receiving company. If the operational logic between sender and receiver is not aligned, authorities may question the validity of the virtual transaction even when a manufacturer's declaration is provided.

While this mechanism offers operational flexibility, it does not replace the underlying documentation requirement. If authorities request supporting records during an audit, companies must be able to substantiate the statements contained in the declaration.

Mandatory electronic customs valuation reporting

A second key development introduced by the reform is the mandatory electronic transmission of customs valuation documentation.

The electronic reporting requirement for the customs value manifest, originally scheduled for August 2025, became mandatory on 1 April 2026. Companies importing goods into Mexico must now electronically transmit supporting documentation relating to the customs value declared for each import transaction. Once this documentation is transmitted, the electronic acknowledgment issued by the customs system is deemed to be formally attached to the customs declaration for presentation purposes, without prejudice to the authority's power to subsequently verify its authenticity, validity, consistency and compliance with applicable regulations.

The documentation package typically includes:

- Transaction documents such as commercial invoices, contracts, purchase orders and payment evidence.
- Transportation and logistics documentation, including bills of lading, packing lists, freight invoices and insurance documentation.
- Valuation-related documentation supporting adjustments to the customs value, such as royalties, commissions, assists or other relevant elements.

This system significantly increases transparency in customs valuation and allows authorities to perform automated cross-checks between declared values and supporting documentation.

In practice, companies are beginning to rely on digital tools that organize valuation documentation and prepare it for electronic transmission, reducing manual workload and managing the risk of submission errors.

Materiality and valuation reporting: two distinct compliance regimes

Although closely related, the materiality requirements and the electronic valuation reporting obligation operate under different compliance mechanisms.

Valuation documentation must be transmitted electronically for each import transaction as part of the customs clearance process. By contrast, the broader materiality documentation must be retained internally and made available upon request during a customs audit or verification.

Both regimes increase the importance of maintaining consistent documentation practices across the organization.

Customs valuation has historically been one of the most sensitive audit areas in Mexico. The introduction of electronic reporting is expected to further strengthen authorities' ability to identify inconsistencies between declared values and supporting documentation.

Technology and data management considerations

The expanded documentation requirements present a significant operational challenge for many organizations. Manual processes quickly become insufficient when companies must gather documentation from multiple systems and ensure that it aligns with a specific customs transaction.

One recurring challenge we observe is that operational, financial and logistics systems were never designed to speak to each other, making coherence checks particularly complex under the new rules.

As a result, businesses are increasingly looking to technology that centralizes documentation, automates completeness checks and, in more advanced applications, uses data driven logic to identify inconsistencies between the documentation and the underlying transaction.

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For each import or export transaction, companies must be able to retrieve documentation originating from multiple internal systems, including enterprise resource planning systems, payroll platforms, procurement systems and logistics providers, and demonstrate that those records correspond to the specific customs event.

For companies managing high transaction volumes, this level of traceability can be difficult to maintain through manual processes alone.

Centralized documentation management systems, stronger integration between operational and financial systems, and automated document linkage mechanisms can help organizations manage these requirements more effectively and reduce the risk of incomplete documentation during audits.

Business impacts and emerging risk areas

The reforms create several areas of heightened exposure for companies involved in cross-border operations.

- Information integration. Documentation supporting a customs transaction now spans multiple internal systems and functions, requiring greater coordination across departments.
- Cross-functional compliance. Customs compliance increasingly depends on timely input from several business functions, making internal coordination and clear responsibility frameworks essential. A common issue for multinational companies is defining clear ownership of each component of the customs file, something that often becomes visible only once authorities request a full documentation package. Additionally, the regulation requires companies to maintain documented internal procedures that ensure the reasonable and necessary collection, retention and provision of all information and supporting evidence referenced under these obligations.
- Audit exposure. Expanded documentation requirements and greater data transparency allow authorities to more easily identify inconsistencies between customs declarations and supporting documentation.
- IMMEX program considerations. Companies operating under the IMMEX program face additional scrutiny because temporary importation, production activities, inventory control and virtual transfers must all be properly documented and traceable.
- Technology-enabled validation. Automated document validation and data-consistency tools can help organizations identify gaps between customs declarations and supporting documentation before an audit occurs.

The practical implication is clear: customs compliance in Mexico is no longer limited to trade documentation. It now requires demonstrable alignment between operational activity, financial records, legal documents and customs declarations.

Conclusion

Mexico's 2026 customs reforms reflect a broader shift in regulatory expectations. Compliance is evolving from a model based primarily on document retention to one centered on operational transparency, data integrity and, increasingly, the use of technology that allows companies to verify, organize and validate their documentation more effectively.

For many companies, most of the documentation required to meet these obligations already exists somewhere within the organization. The challenge lies in organizing these records coherently, linking them to specific customs transactions and ensuring that they can be retrieved efficiently when authorities request them.

Meeting these expectations will require stronger cross-functional coordination, clearer documentation processes and, in many cases, improved systems for managing customs documentation.

Companies that adapt their compliance frameworks early will be better positioned to navigate increased enforcement and protect operational continuity in Mexico's evolving customs environment. ■

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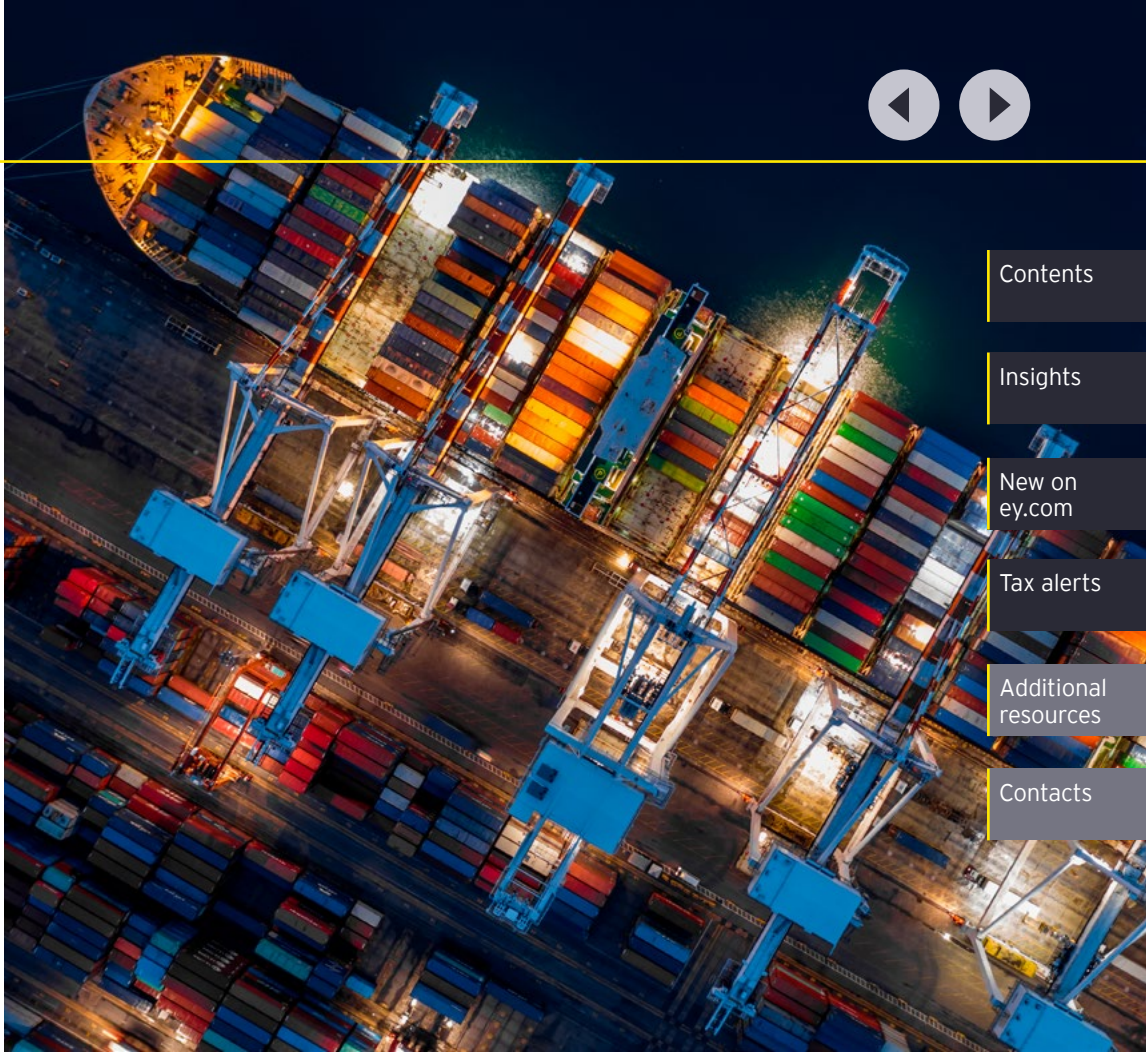
Authorized Economic Operator (AEO) program – trust-based trade facilitation



The concept of the Authorized Economic Operator (AEO) program originated at the global level under the aegis of the World Customs Organization (WCO) in response to increasing concerns around supply chain security following the events of September 2001. In June 2005, the WCO adopted the SAFE Framework of Standards to Secure and Facilitate Global Trade, which introduced a harmonized, risk based approach to Customs control and established the foundation for trusted partnerships between Customs administrations and compliant trade participants. As part of this framework, the AEO program was formally introduced in 2007 as the WCO's flagship Customs to Business partnership model, recognizing entities that demonstrate high levels of compliance, robust internal controls and secure supply chain practices and granting them facilitation benefits in return.

India adopted this globally accepted framework in line with its commitments under the WTO Trade Facilitation Agreement, initially piloting the AEO program in 2011 and subsequently institutionalizing it through CBIC Circular No. 33/2016 Customs dated July 22, 2016. This marked a significant shift in Indian Customs administration towards trust based trade facilitation aimed at ensuring security of the international movement of goods from the point of origin (export) to the point of import in the receiving country while balancing the national security requirements of Customs administrations by partnering with entities that follow sound governance, strong internal controls and compliant business practices.

In line with the Circular, the AEO program in India was restructured into a multi tier framework to enhance its scope and provide graduated facilitation benefits to entities demonstrating increasing levels of compliance maturity and sustained adherence to laws administered by CBIC. Currently, the program operates through three tiers for importers and exporters (AEO T1, AEO T2 and AEO T3). In addition, a separate single tier AEO program has been introduced for other participants in the international supply chain, including logistics providers, custodians or terminal operators, customs brokers and warehouse operators.

Who can apply for an AEO certificate?

- Any entity involved in the international supply chain and undertaking Customs-related activities in India is eligible to apply for AEO status, regardless of the size of the business. Eligible categories include exporters, importers, logistics providers (such as carriers, airlines and freight forwarders), custodians or terminal operators, Customs Brokers and warehouse owners. Other entities such as port operators, authorized couriers and stevedores may also qualify. This list is illustrative and not exhaustive.
- An AEO application applies only to the individual legal entity submitting it. Certification is entity-specific and not automatically extended to other companies within the same group.
- AEO status covers all activities and locations of the legal entity involved in the international supply chain. Accordingly, eligibility criteria are assessed holistically across all such locations and activities.
- Applicants must be established in India. Evidence of establishment may include:
  - A certificate of registration issued by the Registrar of Companies.
  - Details of all locations where goods are handled (e.g., loading, unloading, storage) as part of import or export operations.
  - Proof that the business maintains its own accounts.
- An applicant should have conducted business activities for at least three financial years immediately preceding the application date. However, in exceptional cases, a newly established business may be considered for certification if the AEO Program Manager is satisfied about the adequacy and robustness of internal controls based on physical verification.
- To facilitate participation by small and medium enterprises, the AEO program is open to all importers and exporters that have filed at least 25 bills of entry or shipping bills during the previous financial year. Other economic operators should have handled a minimum of 25 such documents in the previous financial year.
- The AEO Program is open to economic operators of all sizes, including micro, small and medium enterprises (MSMEs), and the eligibility criteria apply uniformly.
- Due consideration is taken of the practical challenges faced by MSMEs, and reasonable flexibility is provided to ensure wider accessibility of AEO certification. Classification of MSMEs is based on the turnover thresholds defined under the MSME Act.

Key benefits

- Direct port delivery of imports to enable just-in-time inventory management by manufacturers
- Direct port entry for self-sealed containers meant for export
- Special facilitation for MSMEs, with eligibility threshold of 25 import or export documents annually
- Provision of deferred payment of duties — decoupling duty payment from Customs clearance
- Mutual Recognition Agreements (MRAs) with other Customs administrations
- Faster disbursal of drawback amount
- Fast-tracking of refunds and adjudications
- Extension of facilitation to exports in addition to imports
- Self-certified copies of preferential origin related or any other certificates required for clearance accepted
- Request-based on-site inspection/examination
- Paperless declarations with minimal or no supporting documents
- Recognition by partner government agencies and other stakeholders as part of the program

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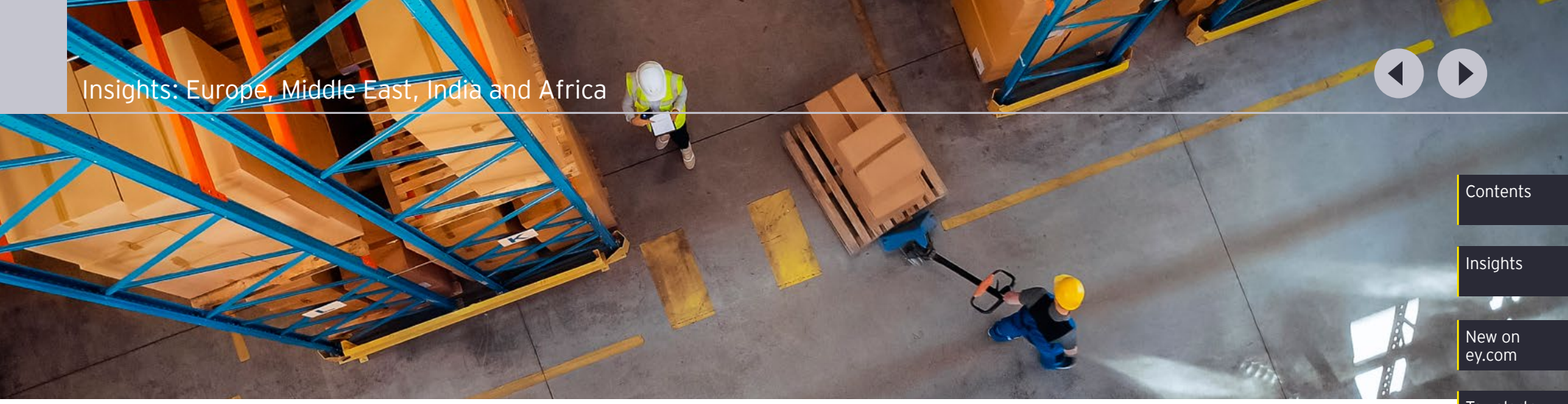

Key requirements

Legal compliance

- **Clean compliance record:** No show-cause notices should have been received in the past three financial years for serious violations such as fraud, forgery, outright smuggling, clandestine removal of goods or failure to deposit tax collected from customers.
- **No prosecution cases:** No instances where prosecution has been initiated or is being considered against the applicant or its senior management.
- **Acceptable ratio of disputed duty:** Show-cause notices (other than those involving serious offenses) issued in the last three years reflecting disputed duty/drawback should not exceed 10% of the total duty paid and drawback claimed.
- **Error identification, remediation and prevention:** Documented procedures must exist to detect, report and correct errors and to prevent recurrence.

Managing commercial and transport records

The applicant must demonstrate a robust, auditable and reliable system for managing commercial and transport records, including:

- Accounting systems aligned with GAAP/IFRS
- Internal controls to detect irregular transactions
- Controls over import/export licences
- Secure record archiving and data protection practices
- Employee awareness of compliance responsibilities
- Procedures for verification of Customs declarations
- Adequate IT security and access controls

Financial solvency

The applicant must be financially solvent and not under insolvency, liquidation or bankruptcy proceedings and must not have defaulted on customs duty payments in the past three years.

Safety and security

The applicant must have comprehensive internal controls to ensure security of cargo, procedures, conveyances, premises, personnel and business partners consistent with supply-chain security principles under the WCO SAFE Framework.

Procedural security requirements

To ensure the security of the international supply chain, the applicant must maintain strong internal controls and procedures that safeguard cargo integrity throughout handling and movement. The key requirements are:

1. **Security policy and procedures manual**
   The applicant must maintain a detailed security manual outlining procedures to protect cargo integrity during storage, handling, loading/unloading and transport. The manual must also specify how seals are affixed, controlled and monitored.
2. **Secure handling, transportation and storage**
   Security measures must be in place to protect all processes related to the transportation, handling and storage of cargo within the supply chain.
3. **Document management controls**
   The applicant must have documented procedures to ensure all cargo-related documents are accurate, complete, legible and safeguarded against loss, tampering or incorrect information.
4. **Accurate and timely data reporting**
   Procedures must ensure that information received from business partners is reported accurately, on time and in compliance with Customs-regulated timelines.
5. **Cargo verification and reconciliation procedures**
   Controls must exist to ensure that:
   - Import/export cargo is reconciled with the Bill of Lading.
   - Weights, labels, marks and piece counts are correctly ecorded.
   - Cargo details are verified against purchase or delivery orders.
   - Drivers delivering or collecting cargo are properly identified.
   - Shortages, overages and discrepanc ies are investigated and resolved promptly.

Safety and security

continued

Premises security

To secure the international supply chain, the applicant must ensure that all operational premises are protected against unlawful entry and unauthorized access. Key requirements include:

- Buildings must be constructed and secured to prevent unlawful entry.
- Gates, fences and windows must have proper locking or access-control systems.
- Issuance of locks and keys must be managed by authorized ersonnel.
- Adequate lighting must be installed at entry/exit points, cargo areas, perimeter lines and parking areas.
- Entry/exit gates must be monitored or controlled; vehicle details must be recorded when required.
- Sensitive document and cargo storage areas should have restricted access.
- Access-control security systems must be in place.
- Restricted zones must be visibly marked.
- Structures and systems must undergo periodic security inspections.
- Perimeter fencing must enclose cargo handling and storage areas.
- Clear segregation must exist for domestic, international, high-value and hazardous cargo.
- The number of access gates must be minimized.
- Unauthorized vehicles cannot be parked near cargo areas.

Cargo security

To prevent tampering, loss or unauthorized introduction of goods, the applicant must implement strong cargo-handling safeguards:

- Only authorized and properly identified persons may access cargo.
- Cargo must remain continuously monitored or stored in secure, locked areas.
- High-security seals meeting PAS/ISO 17712 standards must be used (mandatory for maritime containers).
- Seal integrity must be checked according to documented procedures.
- Seal distribution and control must be managed by authorized staff.
- Where applicable, a seven-point inspection of containers (walls, sides, floor, roof, doors, undercarriage) is recommended.
- Procedures must define actions to be taken if tampering or unauthorized access is detected.
- Goods must be properly marked/stored and verified against documents (transport, purchase/sales, Customs).
- Internal controls must ensure discrepancies are investigated and resolved.

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Conveyance security

To ensure secure transportation of cargo, the applicant must maintain measures that protect conveyance integrity:

- Conveyances used in the supply chain must be capable of being effectively secured.
- Operators must be trained to maintain cargo and conveyance security.
- Operators must report actual or suspicious incidents, with proper records maintained for Customs and the AEO team.
- Potential concealment areas on conveyances must be regularly inspected.
- Transporters must maintain logs or monitoring records to ensure conveyance integrity during transit.
- Predefined transport routes must be identified and monitored; random route checks should be conducted.
- Drivers must report route delays (weather, traffic, diversions) to dispatch.
- Management must periodically and randomly verify that transport logs and monitoring procedures are being followed.

Personnel security

To prevent internal threats, the applicant must conduct appropriate staff creening:

- Reasonable checks must be performed during recruitment to ensure candidates have no past security-related or Customs-related convictions.
- Employees in sensitive roles must undergo periodic background verifications.
- Employees must carry identification that uniquely links them to the organization.
- Processes must exist to identify and record unauthorized persons, including visitor ID and sign-in procedures.
- Identification and system access must be removed promptly when employment ends.

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Business partner security

To maintain supply chain integrity, the applicant must ensure that business partners meet security standards:

- A documented and verifiable partner-selection process must exist covering financial soundness, safety compliance and corrective capabilities.
- Copies of AEO certificates must be obtained from AEO-certified partners.
- For non-AEO partners, written confirmation of meeting AEO-equivalent criteria must be obtained via:
- Contractual commitments, self-assessment questionnaires, written compliance statements, senior-officer declarations or proof of compliance with equivalent foreign accredited security programs.
- Periodic, risk-based reviews of partners' facilities and processes must be conducted to ensure ongoing compliance.

Security training and threat awareness

To maintain security standards, employees must be trained and aware of security threats and procedures:

- A threat-awareness program must be established and maintained.
- Employees must understand how to respond to and report security issues.
- Targeted training must help employees recognize internal conspiracies, protect cargo integrity and enforce access controls.
- Training must cover:
  - Company security policies, internal security risks, cargo security practices, access-control procedures, identifying/reporting suspicious persons or cargo, conveyance and cargo security requirements for transport staff.
  - Training records must be maintained and made available for AEO Program and Customs verification.

More facilitation measures announced for AEOs in the recent budget

CBIC has announced far-reaching automation-led facilitation measures for AEO-accredited companies in the recent budget.

1. **Automatic goods registration for imports**
   Under the new framework, AEO-T2 and AEO-T3 importers will receive automatic goods registration upon cargo arrival, eliminating manual intervention and reducing dwell time.
2. **Auto Out of Charge (OOC)**
   The Auto OOC facility for AEO-T2/T3 has been strengthened, ensuring swift release when no compliance issues exist.
3. **Enhanced export facilitation**
   Exporters will benefit from online goods registration and auto LEO for facilitated shipping bills, reinforcing risk based clearance.
4. **Extended deferred duty payment window**
   The deferred duty payment period has been extended from 15 days to up to one month for eligible AEO T2 and AEO T3 entities, significantly improving working capital efficiency.

AEO status – a hallmark of supply chain credibility

With CBIC's accelerated digitalization and automation agenda, AEO entities benefit from:

- Reduced Customs intervention
- Priority risk based processing
- Faster clearance across ports
- Predictable logistics timelines
- Lower detention and demurrage costs
- Enhanced global supply chain recognition

In light of the significant facilitation measures and financial benefits available under the AEO program, including the enhanced deferred duty payment facility, entities that are not currently AEO accredited may consider **undertaking a detailed assessment of the program's relevance and potential impact** on their operations to determine the commercial and compliance value of AEO status.

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Duty deferred, growth unleashed – the MOOWR revolution for Make in India

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The Manufacturing and Other Operations in Warehouse Regulations (MOOWR), 2019, represents a cornerstone of India's customs framework, designed to facilitate manufacturing activities within bonded warehouses. This scheme allows businesses to import raw materials, components and capital goods without immediate payment of customs duties, deferring them until the goods are cleared for domestic consumption or exported. By aligning duty payments with revenue realization, MOOWR enhances operational efficiency and supports India's ambition to become a global manufacturing hub. This article explores the scheme's origins, benefits, key requirements, checks and balances, and reasons why companies should consider adopting it.

Evolution of MOOWR

The concept of manufacturing in bonded warehouses traces its roots to Section 65 of the Customs Act, 1962, which has enabled such operations since its inception. Initially introduced in 1966, the scheme underwent a significant revamp in 2019 to align with the "Make in India" initiative. The updated regulations, under Notification No. 69/2019-Customs (N.T.) dated October 1, 2019, streamlined processes, removed outdated restrictions and introduced modern features like digital accounting and risk-based oversight. This overhaul was driven by the Central Board of Indirect Taxes and Customs (CBIC) to attract foreign investments, reduce import dependencies and encourage indigenous manufacturing by deferring duties on imported goods used in production, re-labelling, re-packing or other operations. Before 2019, the scheme was underutilized due to stringent conditions and lack of flexibility, but the revisions have made it more accessible and appealing to a broader range of businesses.

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Key benefits of the MOOWR scheme

MOOWR offers a host of advantages that directly address common challenges faced by manufacturers reliant on imported inputs.

- Duty deferment and cash flow optimization: Importers can defer Basic Customs Duty (BCD) and Social Welfare Surcharge (SWS) on raw materials and capital goods until clearance for home consumption. Integrated Goods and Services Tax (IGST) continues to be deferred at the time of import (as the amendment in the Finance Act 2023 to withdraw this deferment under Section 65A has not yet been notified, meaning the benefit remains intact as on date). No interest accrues on deferred duties, unlike traditional warehousing, which can tie up significant working capital. This deferment aligns outflows with inflows, providing substantial liquidity relief.
- No export obligation: Unlike schemes such as Export Oriented Units (EOU) or Special Economic Zones (SEZ), MOOWR imposes no mandatory export requirements or investment thresholds. Companies can sell finished goods domestically or export them, with duties remitted entirely on exports, making it ideal for businesses serving both markets.
- Unlimited warehousing and operational flexibility: Goods can be stored indefinitely without time limits, and operations extend beyond manufacturing to include testing, repair, sorting and even job work permissions. Integrated warehouse-to-warehouse transfers and no geographical restrictions further enhance flexibility.
- Ease of doing business: The scheme promotes a single licensing framework with perpetual validity, computerized records and reduced customs supervision, shifting from daily oversight to periodic audits. This reduces administrative burden and encourages global value chain integration.

While there are clear benefits for procurement of raw materials and capital goods, particularly where the manufacturer is engaged in exports and can achieve duty remission on exported finished goods, existing export benefit schemes under the Foreign Trade Policy continue to provide targeted incentives for exports. However, for imports intended for manufacture in India primarily for the domestic market, MOOWR stands out by offering duty deferment without any export-linked conditions. For exports under MOOWR, while duties on inputs are fully remitted (effectively zero duty incidence), exporters do not qualify for additional benefits like Duty Drawback or Remission of Duties and Taxes on Export Products (RoDTEP) on the same goods. Therefore, conducting a proper dip-stick analysis, comparing MOOWR's cash-flow advantages and simplicity against other schemes' potential additional refunds, is essential to determine the optimal structure based on the company's domestic vs. export mix, duty rates and operational needs.

Key requirements for availing MOOWR

To operate under MOOWR, businesses must meet specific eligibility and procedural criteria.

- **Licensing and permissions:** Apply for a private bonded warehouse license under Section 58 of the Customs Act and separate permission for manufacturing or other operations under Section 65. The application is submitted to the Principal Commissioner or Commissioner of Customs, including details like business nature, input-output norms and security measures.
- **Bond execution:** Execute a triple-duty bond or a general bond to cover potential duties, often backed by a bank guarantee (typically 5%-25% of the bond amount, based on risk assessment).
- **Infrastructure and compliance:** Maintain digital accounts for receipts, production and clearances; appoint a warehouse keeper; and ensure facilities for customs inspections. Input-output norms must be declared to track consumption and waste.
- **Eligibility:** Open to any importer or manufacturer dealing with dutiable goods, including those transitioning from other schemes like EOU or SEZ. No minimum export or investment criteria apply.

The application process is streamlined, with approvals typically granted within 6-10 weeks (depending on document completeness, site readiness and jurisdictional processing), though authorities conduct detailed examinations, including preliminary scrutiny, physical site inspection, and evaluation of compliance and financial aspects, to ensure revenue interests are protected.

Checks and balances in the MOOWR framework

While MOOWR emphasizes flexibility, it incorporates robust safeguards to prevent misuse and ensure revenue protection.

- **Audits and oversight:** Customs conducts risk-based audits rather than constant supervision, focusing on high-risk entities. Licensees must submit monthly returns on stock, production and clearances.
- **Inventory and accounting:** Adopt FIFO (first-in-first-out) compatible systems for tracking goods, with mandatory reconciliation of inputs and outputs. Digital records must be preserved for five years.
- **Movement controls:** Goods movements use standard documents without escorts, but improper removals trigger penalties, including duty recovery with interest and fines under Sections 72-74 of the Customs Act.
- **Exit:** To exit the scheme, clear all goods for home consumption (paying duties) or export them, settling any dues. Noncompliance can lead to license revocation.

These measures balance operational freedom with fiscal accountability, reducing revenue leakage while fostering trust-based compliance.

Why companies should opt for MOOWR

In a competitive global landscape, MOOWR provides a strategic edge for companies aiming to improve costs and scale operations. For export-oriented firms, it effectively nullifies duties on inputs used in exported products, enhancing price competitiveness. Domestic-focused businesses benefit from deferred duties, freeing up capital for growth initiatives like R&D or expansion. The scheme is particularly advantageous for startups and SMEs, as it lacks high entry barriers and supports value addition in India, reducing reliance on fully imported goods. Amid supply chain disruptions, MOOWR enables resilient manufacturing hubs, attracting FDI and aligning with government incentives. Companies transitioning from SEZ or EOU can leverage MOOWR for greater flexibility without export mandates. Ultimately, it drives efficiency, profitability and compliance, making it a must-consider for any import-dependent manufacturer.

Conclusion

The MOOWR scheme has transformed India's bonded manufacturing landscape since its 2019 revamp, offering duty deferment, flexibility and ease that propel the Make in India vision. By understanding its origins, benefits, requirements and safeguards, businesses can harness this tool to thrive in dynamic markets. As India positions itself as a manufacturing powerhouse, adopting MOOWR, after careful evaluation against other schemes, could be the key to unlocking sustainable growth and global competitiveness. ■

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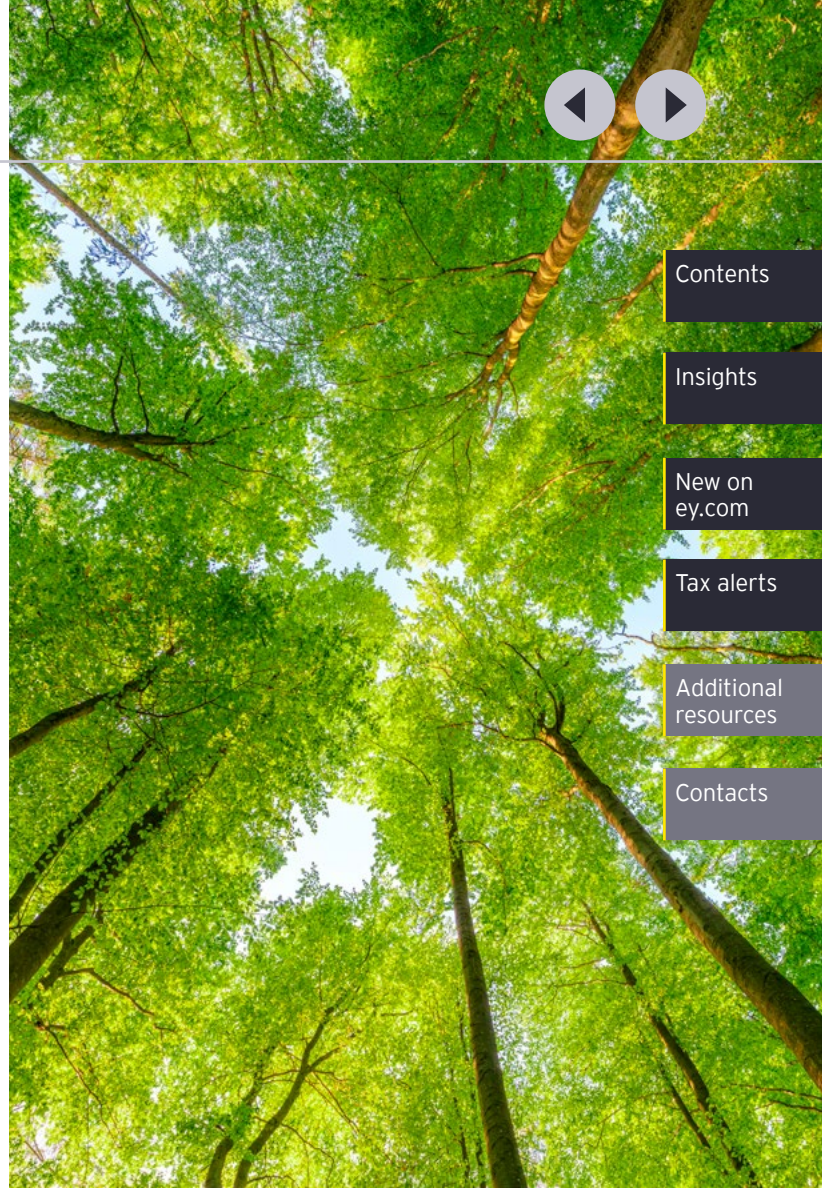
EU-CBAM entered in its definitive regime

The Carbon Border Adjustment Mechanism (EU-CBAM) definite implementation period began on 1 January 2026, marking the transition from a pure reporting framework to a regime with real carbon cost implications for imports into the EU. While EU-CBAM certificates for imports to the EU made in 2026 will only be purchased from February 2027, declarants are already required to accrue expected costs in their financial accounting and ensure that pricing and contracting reflect the new obligations to avoid misalignment in financial reporting and commercial transactions. In other words, if the cost going along with the importation of CBAM goods is not considered in procurement or sales decisions, there may be a loss to the transaction as the postponed cost will arise with the postponed EU-CBAM certificate purchase in 2027.

The initial operational rollout progressed smoothly. The EU Commission's administrative system, the CBAM Registry as well as the EU Member States' customs systems were successfully integrated across the European Union, enabling real time validation of import data. A new requirement is that the declarant must provide so-called TARIC-codes in the import declaration to flag its CBAM formal status. Based on official figures, by the end of 7 January 2026, more than 12,000 EU operators had applied for authorization and over 10,400 import declarations for CBAM goods had already been processed, covering approximately 1.66 million tons of goods, predominantly iron and steel.

A significant compliance milestone followed at the end of the first quarter. The grace period for obtaining the Authorized CBAM Declarant status has been concluded on 31 March 2026. Without an application submitted prior to this date, importers may be unable to release CBAM covered goods easily for free circulation. With administrative processing times of up to 180 days and national divergences in review procedures for authorizations filed from 1 April 2026, securing authorization remains essential for maintaining uninterrupted import operations.

As the regime develops, regulatory complexity continues to rise. Recent implementing acts introduced a 50 ton de minimis threshold from which the Authorized CBAM Declarant status is required and CBAM imports cause cost. Imports of hydrogen and electricity are in scope from the first import. Also indirect customs representatives must have an authorization in place from the first CBAM import as a general requirement. At the same time, debates around temporary exemptions, particularly for fertilizers, have intensified as there are concerns that the cost of CBAM rolls down the supply chain, causing inflation that could cause an economic and social shockwave. On the other hand, stakeholders warn that such carve outs may weaken decarbonization incentives and undermine the policy's environmental objectives. This not only compromises environmental organizations but also industry giants who have clearly communicated that large investments for transformation to a green(er) economy are dependent on EU-CBAM safeguarding the market.



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At this time, EY teams are experiencing great uncertainty about the expected EU-CBAM cost that impacts the business of non-EU manufacturers and traders as well as EU importers. Currently, most importers must calculate the EU-CBAM embedded emissions on the base of default emissions values which are a central driver of cost. While many non-EU manufacturers strive to have their actual embedded emissions calculations verified to serve the EU importers to benefit from the lower actual embedded emissions calculations, the question arises whether all declarants will have the chance to have a verifier that is available at a reasonable expense. While verifiers accredited for EU-Emission Trading System verifications can also verify CBAM emissions calculations, the larger number of "CBAM-only" verifiers can just hand in their application files to the control bodies in September 2026. Presumably, many of them will receive their accreditation late in the year. Hence, at this time, non-EU manufacturers can make so-called "pre-verifications" to review the appropriateness of the emissions calculation methodology, data consistency, available evidence and availability of a monitoring plan that meets the legislative requirements. EU importers aim to supplement their purchase contracts with CBAM-related clauses to nail down their expectations related to availability of verified actual embedded emissions, certain emission thresholds or damage payments.

The uncertainty of CBAM cost also requires the consideration of financial instruments like hedging CBAM certificate cost. While the market of instruments has just started to develop, due diligence is needed to contract with reliable partners and make sure the contractual details are fully understood and meet the requirements of the importer.

Non-EU manufacturers must understand the EU-CBAM emissions calculation logic as a requirement to document facts and circumstances of their manufacturing installations. On that basis, strategizing about optimization of the calculation methodology, strategic investments into decarbonization, procurement of lower-emission precursors, re-focusing of the customers and many more aspects is also due.

Though it is important to bear in mind the EU-CBAM anti circumvention rules, there is scrutiny on changes subject to tariff classification, such as changes to origin, making product routing and import choices, and precursor attribution in emissions calculation and so on, requiring companies to establish stronger internal controls and greater supply chain transparency. For example, while verifiers (supposedly) have not made final EU-CBAM certifications of actual embedded emissions, fake EU-CBAM emissions certificates are already circulating in the market.

The flux of EU-CBAM legislation remains a continuous challenge. Still, key pieces of regulation are pending, such as related to the consideration of carbon cost paid in manufacturing countries and details about the EU-CBAM declaration process. The monitoring of the regulatory framework and guidance issued by the EU Member State CBAM authorities remains a requirement. Moreover, operators need to plan for additional CBAM and CBAM-type measures that will be introduced in jurisdictions such as the UK, Norway, Serbia and others.

Looking ahead, the EU-CBAM's scope is expected to expand significantly. From 1 January 2028, around 180 additional tariff codes (EU Combined Nomenclature), particularly for downstream steel and aluminum intensive goods, are planned to be incorporated. This ranges from household goods to machinery components and even specific types of complete vehicles. The tariff range will encompass goods housed in chapters 84, 85, 87, 90 and 94.

As EU-CBAM matures into a real cost item for importers, the optimization options using special customs procedures like customs transit, customs warehousing, and inward and outward processing gain importance.

This year, it is about setting up a robust EU-CBAM governance (as typically multiple functions are part of CBAM-related workflows in a company); understanding, planning and considering EU-CBAM cost; setting up processes in finance, accounting, customs, sustainability and procurement functions; and connecting with external service providers to help manage the new duty. As EU-CBAM product coverage expands and associated costs increase significantly over the coming years, CBAM will move beyond a mere reporting exercise. For many sectors, it will evolve from a statistical obligation into a matter requiring C-level attention.

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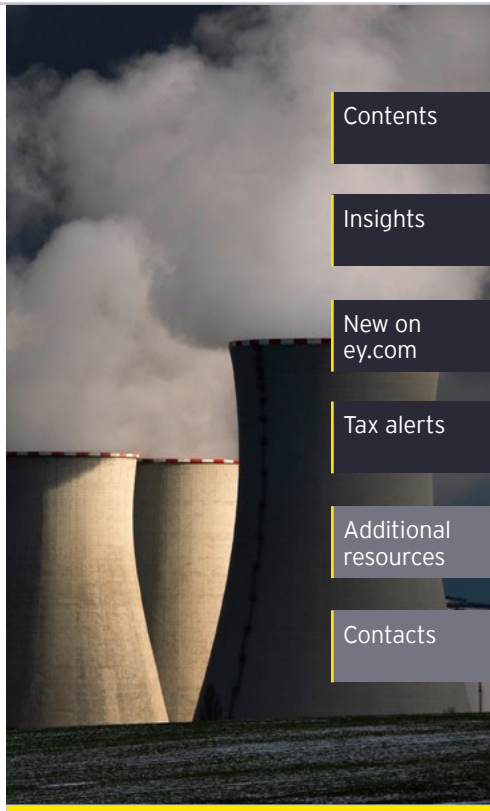
EY Services related to CBAM

Customs advisory	CBAM advisory	CBAM emissions calculations	Sustainability reporting
▪ Technical customs advisory (statements, workshops, help-desk, etc.) ▪ Customs classification, origin, trade data (incl. EY outsourcing services) ▪ Special customs procedures to optimize customs duty and CBAM burden ▪ Customs and trade risk management ▪ Dealing with the customs authorities	▪ Technical CBAM advisory (statements, workshops, help-desk, etc.) ▪ Authorized CBAM Declarant application, monitoring etc. ▪ Calculation of CBAM cost exposure ▪ Full CBAM workflow outsourcing ▪ CBAM risk management ▪ Dealing with the CBAM NCAs	▪ Technical advisory on emissions calculation methodology, monitoring plan etc. (statements, workshops etc.) ▪ Emissions calculation by EY, or review of client methodology by EY ▪ "Pre-verification" of emissions calculation	▪ Technical advisory on sustainability reporting regulations ▪ Advisory and hands-on support to analyze corporate profile and include carbon pricing/ CBAM into sustainability reports (such as EU CSRD)

Corporate strategy	Systems and data	Legal advisory	Transaction advisory/M&A
▪ Corporate strategy assessment and advisory: ▪ Strategic procurement ▪ Supply chain footprint ▪ Investment strategy ▪ Decarbonization strategy	▪ Implementation of ESG data warehouses ▪ CBAM data cleansing and improvement projects ▪ Assessment of best fit CBAM IT solutions ▪ Advisory in IT solution tendering, customization, testing, documentation, etc. ▪ Quality assurance when implementing IT solutions with other providers	▪ Review of legal contracts, specifically considering CBAM/ESG general requirements ▪ Drafting of legal contracts, specifically considering CBAM/ESG general requirements ▪ Support in commercial disputes, disputes with authorities	▪ ESG Due Diligence (incl. CBAM) ▪ Corporate Valuation (incl. CBAM) ▪ Inclusion of CBAM into Commercial, Legal and/or Tax Due Diligence Process



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EUDR at the gates: Key customs, tax and supply-chain considerations

As outlined in our previous edition, the EU Deforestation Regulation (EUDR) aims to ensure that products linked to key commodities — including cocoa, coffee, rubber, cattle, palm oil, soy and wood — enter the EU market only if they are proven deforestation-free and compliant with local legislation. To do this, companies must trace their products back to plots of origin, assess risks and provide due diligence statements (DDS) through the EU Information System (TRACES).

After a revised text published in December 2025 and the application date deferred by one year, the EUDR is entering a new phase. The focus is shifting from understanding the regulation's requirements to integrating operationally these obligations into supply chains and obtaining data as well as addressing the impacts on corporations' operating models.

This article explores what organizations should consider as they move toward execution, how technology can support a scalable compliance model, operating model considerations and key customs-related points that remain open.

Integrating EUDR into supply chain operations

For many organizations, operationalization is where EUDR compliance becomes real. Mapping flows, cleaning master data and understanding the sourcing journey of every relevant commodity are foundational steps, and often far more complex than anticipated.

Linking product flows to Harmonized System (HS) codes is a central element of the regulation, as the list of in-scope commodities and products refers exclusively to this classification. Yet, experience shows that HS and material/batch code classifications are frequently inconsistent, supplier master data is fragmented, and legacy purchasing systems are poorly connected to logistics and Enterprise Resource Planning (ERP) platforms. In practice, HS code classifications often do not match internal material codes, and mismatches between a company's and its suppliers' classifications are common. Further, companies purchasing goods inside the EU rarely have access to upstream import declarations and therefore cannot verify whether suppliers used correct HS codes. The challenge is heightened for complex or global supply chains involving contract manufacturers, intermediaries or processing steps that break the link between sourced and finished goods.

Ensuring traceability to every plot of land and compliance with applicable legislation requires intense engagement with suppliers. It requires structured supplier outreach, remediation processes and robust sourcing and contracting practices. Among other commitments and confirmations to comply with the EUDR's traceability and due diligence requirements, operators should ensure that suppliers be bound by contractual obligations to provide all relevant evidence and documentation (for example, of prior placement on the EU market) to

customs or national competent authorities (NCAs) upon checks and/or audits to ensure they can respond immediately to investigations.

EUDR compliance also requires close coordination between business departments including procurement, supply chain, tax/customs, manufacturing, sales, distribution, legal, sustainability and IT. Data must be captured consistently, connected to transactions (both inbound and outbound), and made auditable for customers and customs or NCAs. This requires clear decisions on where data is stored, an appropriate governance for traceability along operations and ownership on risk management, as well as regular reviews of the due diligence system.

Technology as an enabler

Amid the complexity, technology offers a sometimes-necessary path toward scalable and efficient compliance, especially when large volumes of transactions are involved. A key aspect is to build a digital architecture that supports the collection of data, supplier reach-out, traceability, DDS management and integration with TRACES. Companies are increasingly moving away from point-solution providers and exploring platform-based approaches that consolidate master data, automate workflows and connect ERP or logistics systems to EU systems. Such integrated platforms centralize commodity-level information, plot coordinates and supplier declarations, as well as risk assessment and mitigation outcomes, ensuring consistency across all functions involved.

Tax and customs considerations: where compliance becomes operational

From a tax perspective, EUDR implementation intersects with how supply chains are structured and how functions are allocated between group entities. Companies need to determine which entities perform which EUDR-related tasks and how these operational roles interact with existing VAT, customs, intercompany transfer pricing operating models and commercial documentation such as invoices, pro forma invoices and stock transfer documents. Because the entity responsible for EUDR obligations may not be the entity recognizing margins or assuming key risks under the transfer pricing model, governance choices must be carefully aligned across customs, tax and operational realities.

In particular, manufacturing and distribution agreements between entities should be examined to determine the title transfer, Incoterms, and import/export roles and responsibilities. In some cases, new service-level agreements or existing agreements may need to be drafted or revised, especially when an authorized representative submits DDSs on behalf of the entire group or when the personnel preparing and submitting DDSs is employed by another company.

The customs dimension is also a major aspect of compliance, with its own lot of complexity. Under the EUDR, DDSs must be lodged in TRACES before goods can be released for free circulation, meaning that customs clearance becomes an immediate compliance checkpoint. This increases pressure on companies using just-in-time models or those shipping large volumes across multiple EU entry points, as the relevant information must accompany the customs documentation when the products reach the border in order to avoid blockages at EU borders.

Reimports and imports of products made from components previously in free circulation in the EU also raise complexities. In principle, due diligence should not be re-exercised on commodities that are re-imported or on components of relevant products which were previously in free circulation in the EU. However, the regulation does not specify how companies must demonstrate this prior EU placement. Indeed, the amended text removed the obligation to create a DDS upon exports, making it impossible to rely on export DDS reference numbers in the reimport context. Possible options being discussed in industry spheres and pushed to EU authorities include the reliance on the existing conventional DDS reference number or developing dedicated TARIC (Integrated Tariff of the European Union) codes to identify inputs that have been previously placed on the EU market.

Non-EU established companies: different views in customs and company law

Especially where non-EU-based companies are concerned, open questions remain on the applicable legal regime to determine whether a company is EU-established or not, yet such determination is particularly important for identifying the extent of obligations and liability (especially in connection with Art. 7 EUDR). Indeed, the EUDR does not make clear whether general customs principles or general corporate law principles should prevail in determining EU

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establishment. Under customs law, a permanent business establishment (PBE) can, in certain circumstances, make a non-EU company established in the EU. However, under general company law principles, a branch is typically regarded as a mere extension of the company and does not, by itself, create an establishment in the country where the branch is located. In the unlikely event that the position is taken that an EU branch can make a non-EU company EU-established, the conditions under which such establishment is granted should be clarified – for example, whether it is needed that the name of the relevant branch appears on invoices or customs documentation, or that its personnel be directly involved in negotiating or concluding the relevant transactions. Such considerations will also bear important implications on direct and indirect tax.

Looking ahead

The EUDR is more than a regulatory obligation: it is reshaping how companies understand their supply chains, manage risk and engage with suppliers. Organizations that invest early in robust processes and enabling technologies will be best placed to meet the expectations of regulators and customers and to turn compliance into a long-term competitive advantage.

As companies move from design to implementation, the ability to link product flows to accurate HS classifications, ensure supplier-level traceability and embed due-diligence responsibilities into the operating model becomes decisive. On the customs side, operators will need to manage DDS submissions as part of their clearance workflows and prepare for scenarios involving re-imports or mixed batches, where evidencing prior EU placement may be critical. Tax and transfer pricing teams will likewise need to align functional responsibilities and documentation so that the entities performing EUDR-related tasks are properly considered in the group's operating model. Against this backdrop, a coherent roadmap that strengthens data foundations, formalizes roles around due-diligence tasks and anticipates future regulatory clarifications will help organizations navigate the next phase of EUDR implementation with greater confidence and consistency. Aligning EUDR efforts with broader due-diligence frameworks such as the Corporate Sustainability Due Diligence Directive (CS3D) and Corporate Sustainability Reporting Directive (CSRD) is also key to reduce duplication and strengthen enterprise-wide risk management.

Summary: priority checklist for EUDR compliance

✗	Do not clear goods without DDS reference numbers or valid "TARIC Document Code"
✓	Embed DDS/TARIC codes into customs declaration workflows and broker instructions
✓	Align HS classifications with EUDR Annex I
✓	Address re-import complexities and evidence requirements
✓	Build ERP–Customs–Broker connectivity for EUDR data
✓	Implement training, governance and process boundaries
✓	Prepare for the TRACES and Customs Portal digital integration
✓	Support cross-functional scoping, master data and risk assessments
✓	Ensure additional planning for non-EU-established companies operating in the EU
✓	Update sourcing policies and contracts with suppliers, and review intercompany service-level agreements

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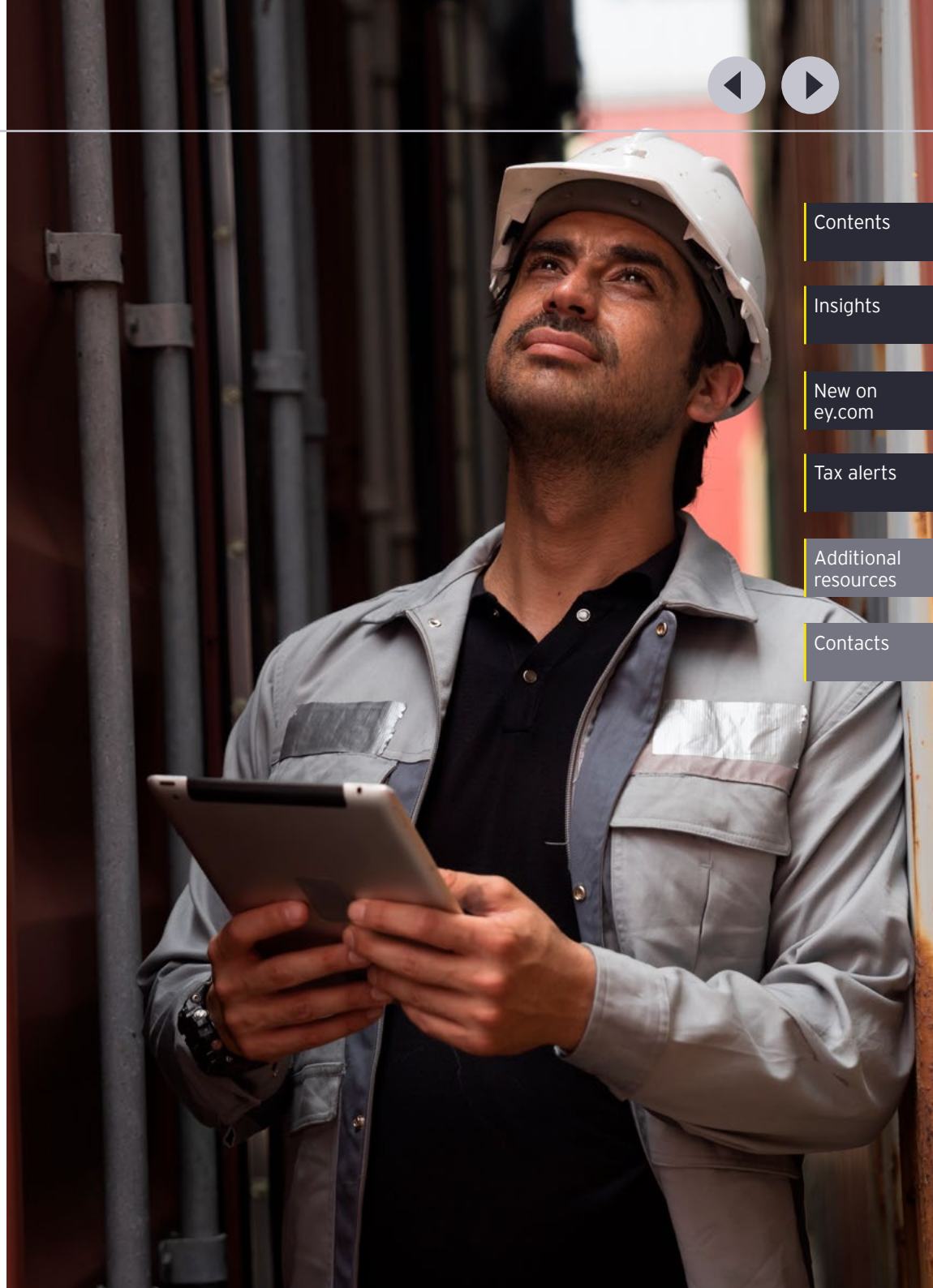

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Why the EU is intervening now

The EU's Customs Union reform is increasingly being shaped by one dominant reality: the scale and speed of low value e commerce imports has outgrown a supervision model built for traditional, bulk trade. The European Commission has framed the May 2023 reform package as a shift to a more data driven, risk based model centered on an EU Customs Authority and an EU Customs Data Hub that would ultimately replace today's fragmented IT landscape and enable more consistent, EU wide controls.

In the e commerce context, the policy direction is clear: remove structural incentives for parcel by parcel imports, increase accountability for VAT and duty at the point of sale, and help customs authorities regain control through better data and clearer allocation of legal responsibility. The recent political steps on the €150 duty relief threshold and the interim €3 duty confirm that the EU is accelerating elements originally expected later in the decade. In this article, we elaborate on this change and other proposed changes affecting e-commerce import transactions.

The fixed import duty rate: the interim €3 measure (from 1 July 2026)

A major near term change is the abolition of the €150 customs duty relief threshold for low value consignments from 1 July 2026. An item entering the EU in consignments valued under €150 will be subject to a fixed customs duty of €3 if the import takes place under the Import One-Stop Shop (IOSS) or the goods are in a postal consignment. In other cases, the normal import duty rate will be applicable.

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The fixed import is a temporary collection mechanism. The Council and Commission have explicitly presented the €3 duty as a bridge to the longer term customs reform architecture built around the EU Customs Data Hub (mid 2028). The Council communication indicates the €3 duty is applied per the different item/tariff heading contained in a consignment and is linked operationally to flows where non EU sellers are registered under the IOSS, which the Council notes covers the bulk of e commerce flows.

For many sellers and platforms, the interim €3 duty will not simply be a marginal increase in landed cost. Because the charge attaches to classification structure, product bundling strategies, SKU architecture and the way declarations are built can drive materially different outcomes, even before considering the separate handling fee layer discussed below.

The "deemed importer" scheme: shifting liability to platforms (expected from 1 July 2028)

The EU reform package aims to make e commerce compliance less dependent on the customer, the carrier or dispersed intermediaries and more dependent on the actors that shape the transaction by making platforms so-called deemed importers. Digital interfaces become the party "on the hook" for customs obligations in distance sale import models — aligning customs more closely with the logic already used in VAT e commerce rules.

Under the reformed EU legislative customs framework, e-commerce platforms designated as deemed importers will take on direct responsibility for the fiscal and regulatory integrity of cross-border distance sales. Platforms must remit customs duties and import VAT and should provide data on their sales of goods to be imported at the latest on the day after the acceptance of the payment to the EU Customs Data Hub and maintain comprehensive transaction records for up to 10 years to enable audits and verification.

Deemed importers also become accountable for ensuring product compliance: goods sold through the platform must meet EU safety, environmental and market surveillance requirements, with liability resting on the platform if unsafe or noncompliant items enter the EU.

Platforms are legally accountable for mis-declarations, undervaluation or fraud and will be subject to EU-wide audits by the new European Customs Agency. Those with strong compliance systems may apply for Trust & Check status, gaining access to simplified procedures and faster clearance in exchange for demonstrably reliable data and controls.

The "bucket system": simplified tariff treatment for e-commerce

Beyond the interim €3 duty, a central design idea in the reform was to simplify tariff determination for e commerce imports through a "bucket" approach — grouping goods into simplified categories to reduce friction and improve collection consistency for high volume, low value flows. This concept was widely discussed by practitioners as part of the e commerce regime under the revised Union Customs Code but is currently put on hold.

While the EU's public communications emphasize the broader shift to data led supervision via the EU Customs Data Hub and Customs Agency, the bucket logic fits the same blueprint: reduce the opportunity for misclassification arbitrage, lower the administrative burden created by millions of micro declarations, and make risk analysis and duty calculation more scalable.

Businesses should avoid treating the bucket system — if it is reintroduced — as "just a tariff change." It is better understood as a supervision and data quality tool: a simpler tariff interface, combined with richer transaction data, enables customs authorities to detect undervaluation, repeated misclassification patterns and noncompliance at scale. At the same time, it should be noted that more detailed classification codes may still be necessary given that other (tax) measures like excises, the Carbon Border Adjustment Mechanism and the EU Deforestation Regulation may still require importers to have classification codes available that go beyond a six-digit level.

Changes to IOSS: incentives, pressure points and compliance consequences

IOSS remains a VAT mechanism, but the customs reform is increasingly interacting with IOSS in two ways: coverage (how much of the e commerce ecosystem is pushed into IOSS) and operational coupling (how customs processes treat IOSS flows vs. non IOSS flows).

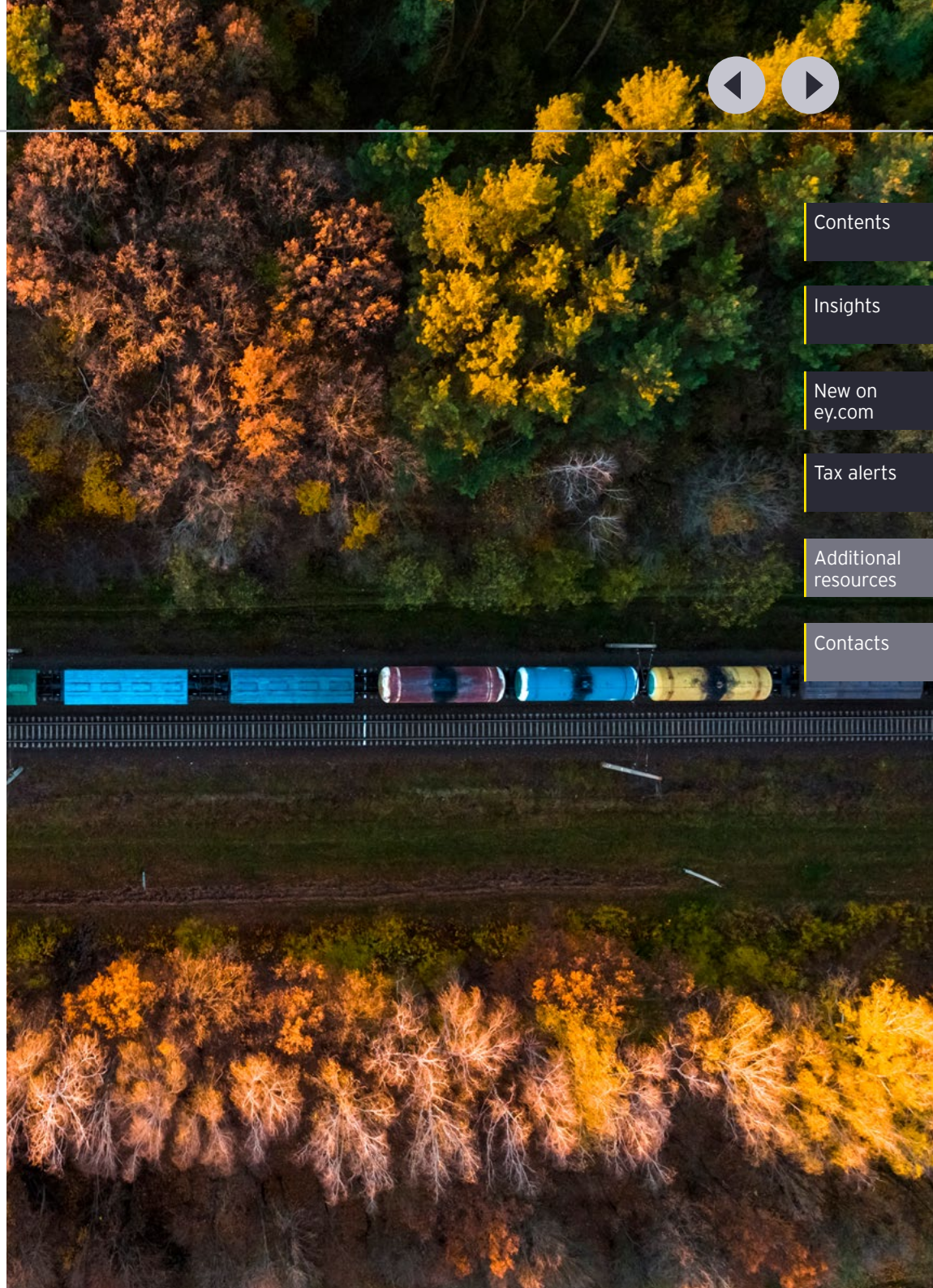
On the VAT policy side, changes under discussion and adopted positions have been described as increasing pressure on non EU sellers to use IOSS by making alternatives more burdensome, especially through local registration requirements and tax representative mechanics for non EU sellers where IOSS is not used. In parallel, the Council and Commission have linked the interim €3 duty operationally to IOSS registered flows, explicitly noting that IOSS registration encompasses the vast majority of e commerce imports in practice.

The practical question for many sellers will no longer be "Should we use IOSS?" but rather "If we do not use IOSS, can we absorb the VAT compliance fragmentation and still meet delivery experience expectations?" The reform environment is shifting costs away from the border and towards the point of sale and data governance, especially for high volume platforms and marketplaces.

Handling fees: an EU level fee is coming, but some national fees are (or were) already here

EU handling fee (under negotiation; targeted for November 2026)

Alongside the interim €3 duty, EU institutions have been discussing a Union handling fee intended to compensate customs authorities for the growing cost of supervising enormous parcel volumes. The Commission notes that the handling fee concept was introduced in early 2025 and brought into the customs reform file through the Council's negotiating mandate. The Council has explicitly distinguished the €3 duty (a revenue/level playing field measure) from the handling fee (a cost recovery/supervision measure).



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Based on the Council's mandate, the customs authorities shall collect the EU handling fee of a fixed amount per item for the services rendered for releasing for free circulation goods sold in distance sales. Based on a non-paper, the EU handling fee would amount to €2 per item, and €0.50 if the e-commerce goods are released from a newly developed customs warehouse arrangement.

National handling fees (already implemented in some Member States)

Because an EU wide handling fee is not yet fully in force, several Member States have moved ahead with national "small parcel" charges, creating the risk of fragmentation.

- Romania. Romania introduced a 25 RON (≈ €5) fee per parcel for certain low value, non EU distance sales delivered in Romania, effective 1 January 2026, with collection and reporting obligations typically routed through postal/courier intermediaries and supported by shipper/platform data declarations.
- France. France adopted a temporary €2 "small parcel" tax/handling fee, effective 1 March 2026, applied to low value imports (under €150) processed under simplified arrangements; liability and collection routes vary depending on whether the flow is under IOSS and the importer's French VAT/IOSS status.

Italy introduced a national handling fee but later postponed the introduction, where other countries like Belgium and the Netherlands were planning to introduce a national handling fee but ultimately decided to put the plans on hold. The emergence of national charges means businesses can face stacking cost layers: (i) the interim EU €3 duty (from July 2026), (ii) a future EU handling fee (targeted around late 2026) and (iii) national handling fees in the meantime, potentially depending on the routing of parcels and the Member State of import clearance.

What this means for operating models: a compliance and cost to serve reset

The combined effect of the interim duty, the direction of deemed importer responsibility, simplified tariff logic (buckets), IOSS driven VAT pressure and the emergence of handling fees points to a single strategic conclusion: the EU is trying to rebalance e commerce away from frictionless parcel by parcel importation and toward better controlled, data transparent models. That does not necessarily force every business into EU warehousing immediately, but it does materially increase the value of (a) data quality, (b) routing discipline and (c) coherent governance across tax, customs, trade compliance and logistics.

Practical preparation themes for 2026–2028

1. Quantify exposure by product structure. Because interim charges and national fees often track tariff lines/classifications, SKU strategy and declaration build logic can directly drive cost outcomes.
2. Stress test IOSS strategy. Evaluate whether IOSS remains the least bad option when weighed against the compliance cost of local registrations and differing national fee collection methods.
3. Prepare for a "platform accountability" world. Build contractual and operational levers — seller onboarding, verification, audit rights, product compliance checks — aligned to the deemed importer direction.
4. Plan for Member State fee fragmentation. Map where parcels are actually cleared for customs purposes and monitor national fee regimes that can be triggered by clearance location rather than destination alone.
5. Track the Data Hub timeline and data readiness. The reform's center of gravity is the EU Customs Data Hub and the shift to "submit once, use many times" supervision. Data maturity will become a competitive differentiator. ■

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Saudi Arabia introduces voluntary disclosure controls with full waiver of customs violations

Saudi Arabia has entered a new phase in its customs modernization journey with the introduction of comprehensive Voluntary Disclosure (VD) controls enabling importers and exporters to proactively correct customs declaration errors and potentially receive a full waiver of associated customs violations, provided specific conditions are met. Introduced by the Zakat, Tax and Customs Authority (ZATCA) and published in the *Official Gazette* on 30 January 2026, the VD framework came into effect 30 days after its publication and represents a defining shift in Saudi Arabia's customs regulatory landscape – one that emphasizes compliance, transparency and trade facilitation and aligns with the Gulf Cooperation Council (GCC) Unified Customs Law principles.

The initiative advances several pillars of Saudi Arabia's broader economic agenda under Vision 2030, including strengthening trade governance, improving border efficiency and aligning national practices with global customs standards. As Saudi Arabia continues its ascent as a regional logistics and trade hub, the need for predictable, modern and facilitative regulatory frameworks becomes increasingly essential. The VD controls directly support this objective by empowering businesses to address errors before they escalate into disputes or enforcement actions.

The VD framework derives its authority from the GCC Unified Customs Law, particularly Article 141, which outlines administrative customs violations associated with incorrect or incomplete information in customs declarations. The VD framework applies to customs declaration related violations or any other related declarations that fall under Article 141, including inaccuracies in the following:

- Commodity classification
- Customs valuation
- Country of origin
- Data elements provided in import/export declarations

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A transformational shift in Saudi Arabia's customs compliance landscape

Historically, customs systems around the world have relied heavily on enforcement-driven models, often identifying errors through audits, investigations or post-clearance reviews. While effective, these traditional models can create inefficiencies, backlogs and complicated interactions between authorities and traders.

The ZATCA's introduction of a formal VD mechanism signals a deliberate move away from reactive compliance models. Instead, the ZATCA seeks to cultivate a culture where businesses are encouraged, and even incentivized, to voluntarily report issues in good faith.

This shift supports three strategic objectives:

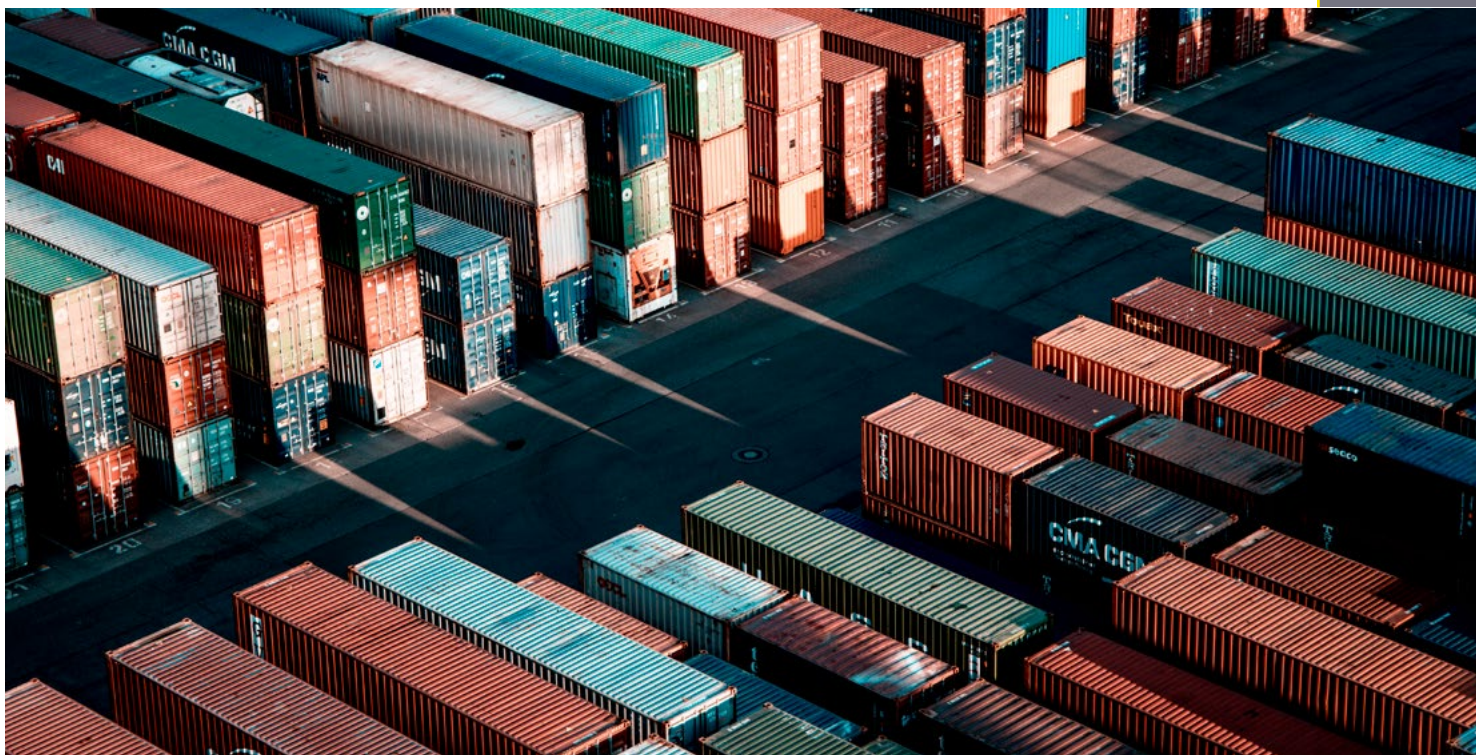
- Enhancing transparency: Businesses gain clarity around how errors can be resolved, reducing uncertainty and the risk of prolonged disputes. The VD controls clearly outline eligibility, documentation requirements, decision timelines and the implications of submission.
- Strengthening trust between authorities and the private sector: A system that rewards voluntary compliance fosters stronger cooperation and supports the broader sustainability of the customs ecosystem.
- Aligning with international best practices: As global customs administrations adopt more risk-based and trader-centric models, voluntary disclosure regimes have become standard practice in mature economies. Saudi Arabia's introduction of these VD mechanism reflects developments that can also be observed in other jurisdictions where risk-based and trader-centric customs supervision models are being introduced.

Regulatory foundation built on the GCC Unified Customs Law

The VD framework derives its authority from the GCC Unified Customs Law, particularly Article 141, which outlines administrative customs violations associated with incorrect or incomplete information in customs declarations. The VD framework applies to customs declaration related violations or any other related declarations that fall under Article 141, including inaccuracies in the following:

- Incorrect determination of country of origin
- Misclassification of goods under the Harmonized System (HS) code
- Inaccurate customs valuation
- Missing, incomplete or incorrect data elements in import or export declarations

These categories represent some of the most common and impactful customs compliance risks faced by businesses. Errors in any of these areas can lead to financial exposure, shipment delays and downstream regulatory monitoring. The opportunity to self-correct them while obtaining a full waiver of violations offers significant relief to businesses.



Eligibility requirements

To qualify for a full waiver of customs violations, businesses must meet the clearly defined conditions. These requirements focus on ensuring the integrity of the disclosure and enabling the ZATCA to make informed assessments.

- **Proactive submission:** The error must be disclosed before the ZATCA identifies it through audits, inspections, system queries or any other enforcement activity.
- **Full and accurate documentation:** A VD submission must be comprehensive and transparent.
- **Timely payment of duty differences:** Any additional customs duties identified must be settled within 30 days of receiving the demand notice.
- **Decision timeline:** Following submission of the VD, the ZATCA will issue its decision within 30 days.

A streamlined, digital-first application process

Taxpayers should submit the VD requests through ZATCA's electronic platform using the approved disclosure form and attaching all required supporting documentation. Businesses or taxpayers can file directly or through an authorized representative.

Alignment with international best practices in customs administration

Countries with advanced customs systems increasingly rely on voluntary disclosure regimes to manage compliance risks. Saudi Arabia's new VD controls align with these global standards and support Saudi Arabia's goal of becoming a regional logistics hub.

Implications for businesses: a new compliance imperative

Businesses looking to potentially benefit from the new VD controls should proactively assess their customs declaration practices to identify and rectify any historical errors, thus reducing the chance of financial liability and legal risk. Companies should also ensure that their internal processes are updated to facilitate effective participation in the VD program to strengthen compliance and align with international practices that promote transparency and adherence to customs regulations.

Key recommended actions for businesses:

- Conduct internal customs audits
- Review key compliance processes
- Strengthen documentation and record-keeping
- Train compliance and operations teams
- Engage stakeholders proactively

Conclusion

The introduction of VD controls represents a major advancement in Saudi Arabia's customs ecosystem, reinforcing transparency, collaboration and proactive engagement.

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The EU's overhaul of customs supervision in the era of explosive e-commerce growth and digitalization

Introductory

The EU is about to comprehensively reform the EU Customs Union. Once enacted, the new rules provide for nothing less than the most significant reform since the European Customs Union was founded in 1968. The objective is to have a more future-proof, data-driven, risk-based and uniform customs supervision across the Single Market – one that better reflects the sharp rise in e-commerce imports, complex supply chains and security requirements.

The objectives are laid down in the proposals initiated by the European Commission two years ago and will affect both businesses and local customs authorities. The trialogues are now being finalized and, at the time of writing, the final texts are expected soon. This article highlights the most important changes being pursued in that respect.

EU Customs Authority

At present, there is no EU-wide body that coordinates, performs central tasks or simply serves as a point of contact. Many companies suffer from inconsistent application of customs rules across the EU, while many also take advantage of this patchwork. A new European Customs Agency (EUCA) is now being established and will be based in Lille, France. Among other actions, the EUCA will be responsible for risk management, coordinating joint controls, developing common standards and ensuring uniform application of customs procedures. The new agency is also expected to take on key tasks in the area of digitalization. National authorities will, however, remain responsible for the operational enforcement of customs law and will be supported by the EUCA merely as a central point of contact. The staff of the agency are to be EU customs officers.

EU Customs Data Hub

Using modern data analytics and artificial intelligence, the EU Customs Data Hub is intended to replace national IT systems and interfaces. The aim is a uniform level of digitalization and a level playing field. A shift in emphasis is planned – from border clearance to upstream, data-based checks (even before the goods arrive in the EU) and supply chain transparency.

The simplification is intended to enable businesses to lodge all customs declarations for operations anywhere in the EU in a single place (one-stop shop). While there are already options to make use of centralized clearance, the implementation often depends on the cooperation of national customs authorities and, since national customs systems are still not sufficiently integrated across the EU, the implementation often relies on pragmatic interim solutions.

It is also envisaged to use data already available within the company. This primarily concerns the option of self-assessment (self-control). In the longer term, the European Commission's vision is for tax and customs authorities to be granted permanent direct access to productive systems (e.g., ERP/ inventory management, financial accounting, logistics systems) —also in the context of the Trust & Check Trader authorization (see below). Whether customs clearance will then be organized by companies via self-assessment or whether customs authorities will extract the relevant data and assess duties purely on a data basis is yet unknown. Based on initial tests, the European Commission has found that data extraction and AI-based assessment is more difficult than initially expected due to the diversity of systems and data types. Nevertheless, this perspective has far-reaching consequences for companies and their IT and data landscape, particularly with regard to data and master data quality, the implementation of interfaces, automation, access rights and much more.

Certified Trusted Economic Operator (Trust & Check Trader)

Brussels is planning a premium trusted trade scheme above the currently available customs authorization as an Authorized Economic Operator (Authorized Economic Operator, commonly abbreviated as "AEO"). The Trust & Check Trader/ economic operator will have to meet even higher requirements regarding internal control systems, data quality, detailed transparency and governance. The new status promises far-reaching privileges for companies. These include significant simplifications such as automated release of goods to the customs procedure, centralized customs clearance, self-assessment and periodic settlement, and fewer physical checks.

At one point, even the future of the AEO was under consideration. The European Commission had planned for the status to be discontinued in the future. Many customs simplifications would then have required Trust & Check Trader status. It was foreseeable, however, that many — especially small and mid-sized — companies would not yet have been able to meet these requirements by the date to be determined. As a consequence, the loss of existing simplifications would have been threatened. Lobby activities of business associations have apparently been successful as, according to the latest information, the Trust & Check Trader status is intended to build on the existing AEO concept and strengthen it.

E-commerce and platform responsibility

Based on the VAT e-commerce rules and certain market-conformity provisions, electronic platforms or online marketplaces in e-commerce are, in the future, to be classified as "deemed importers". From a customs perspective, they will then be responsible in their own name for the proper handling of import transactions by third-party sellers on their platform.

In addition, a simplified system with four groups of product categories for low-value consignments is to be introduced. This is intended to significantly reduce the effort required for customs tariff classification and, in conjunction with abolishing the current duty exemption for goods valued at up to EUR 150, prevent fraud. What may be overlooked, however, is that many excise and environmental taxes, product conformity rules, and prohibitions and restrictions identify affected goods by customs tariff codes. Correct tariff classification will therefore still be necessary and could call the added value of the measure into question.

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Further changes

The revision would also entail many detailed changes in the customs operation. This includes shortening the time limit for the temporary storage of goods from 90 to three days (or six days for authorized consignees), which in practice amounts to its abolition. In many cases, this would force companies to apply instead for authorization to operate a customs warehouse. EU operators may take that potential change into consideration for their strategic planning of import structuring and authorizations for local entities.

In addition to the already known Binding Tariff Information and Binding Origin Information, Binding Customs Valuation Information is finally also to become possible, which represents a great opportunity for importers to manage customs valuation risks better.

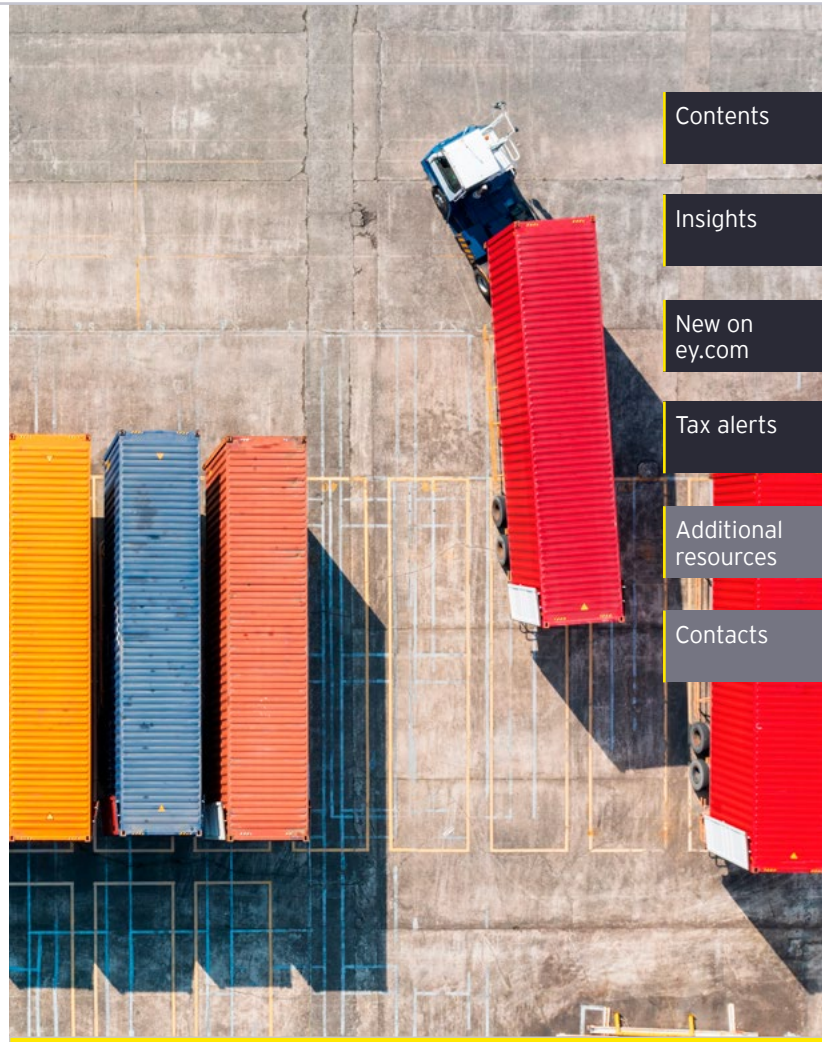
A uniform risk management system based on EU-wide coordinated criteria is intended not only to improve monitoring of compliance with customs rules but also to enable close cooperation with other market surveillance and law enforcement authorities, such as the European Anti-Fraud Office (OLAF), the European Union Agency for Law Enforcement Cooperation (Europol) and the European Border and Coast Guard Agency (Frontex). This will mean, and it is already happening, that more and more investigations and cases arise that are initiated by authorities outside the country where the measures are taken (with the support of local authorities).

The handling of sanctions and infringements – together with a defined minimum level for non-criminal sanctions – was also to be harmonized in order to prevent distortions of competition, loopholes and "customs tourism". In the past, however, several attempts have failed or not been pursued further, citing Member State competency. The EU is now making a new attempt, but it indicates that the EU Council is again taking a reserved position to that change.

This presentation of the changes resulting from the reform proposal does not claim to be exhaustive. Further redesigns concern, among other topics, the transfer of liability, comprehensive guarantees or the training of national customs authorities.

Conclusion

The reform of EU customs law offers opportunities for businesses, but also requires investment in data availability and quality as well as in systems, processes and leadership. Significant acceleration and cost advantages are within reach. Clear roles, clean master data and robust interfaces are crucial, particularly in e-commerce, in order to remain operational and competitive in the new customs environment. The new rules will force marketplace operators to set a high bar for sellers active on their platforms, as marketplace operators will in the future be responsible, in their own name, for the correctness of customs processing. ■



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Pan-Euro Mediterranean convention on rules of origin

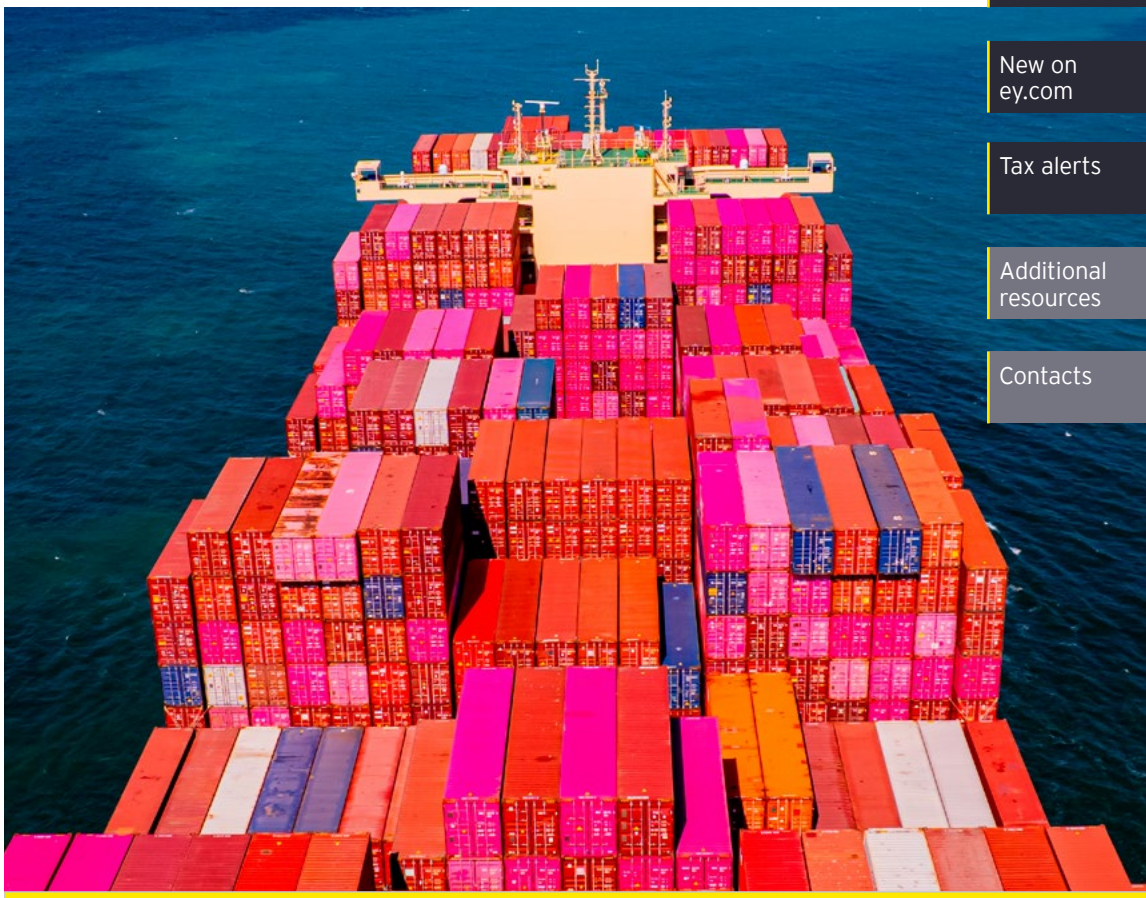
Rules of origin determine the economic nationality of goods and whether they qualify for preferential tariff treatment under trade agreements. While essential to global trade, differing rules of origin can create complexity and administrative burdens for businesses operating across international supply chains.

The Pan Euro Mediterranean Convention on Rules of Origin (PEM) is a multilateral framework that harmonizes rules of origin across 25 contracting parties in Europe, North Africa and parts of the Middle East. PEM is neither a customs union nor a free trade agreement (FTA); rather, it provides a common set of rules that apply where contracting parties already have reciprocal FTAs. A key feature is diagonal cumulation, which allows inputs from one PEM country to be treated as originating when incorporated into goods exported to another PEM partner.

In its June 2025 Trade Strategy, the United Kingdom (UK) government highlighted that joining PEM could help harmonize rules of origin and increase flexibility for UK exporters. A short consultation with UK businesses followed in November 2025, with conclusions expected ahead of the UK European Union (EU) Leaders' Summit in summer 2026.

UK accession to PEM could simplify trade by improving supply chain resilience through near shoring and expanded cumulation opportunities. In many cases, PEM offers more liberal product specific rules of origin than those in existing UK FTAs, including the EU UK Trade and Cooperation Agreement (TCA). However, as PEM is not an FTA, it is unlikely that its rules of origin could operate in parallel with those in existing FTAs without amendment. Changes to UK FTAs may therefore be required to incorporate or reference PEM rules.

While increased regional integration could benefit sectors such as automotive, chemicals and pharmaceuticals, PEM rules can be stricter than those in the TCA. Businesses may, therefore, need to reassess sourcing strategies and origin management processes to manage risks and maximize potential benefits should the UK accede to PEM. ■



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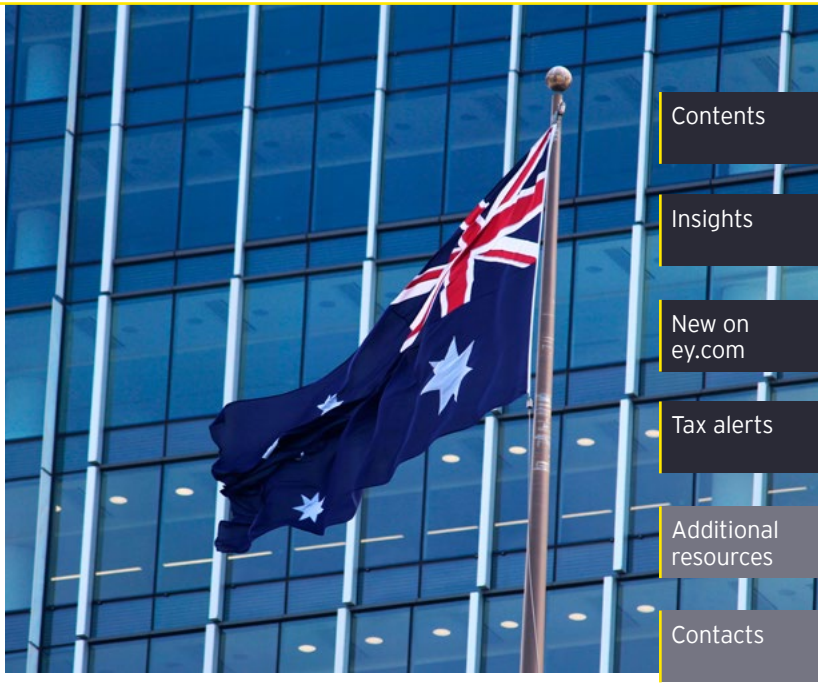
Australia: Moving to strengthen trade protections as Anti-Dumping Commission takes control of safeguard measures



Australia's trade remedy framework is set to undergo a significant institutional shift with implications for the posture of future safeguard measure investigations and import restrictions. In an environment already characterized by heightened geopolitical risk, supply chain disruption and a renewed focus on domestic manufacturing capability, the Australian Government has announced that responsibility for safeguard investigations will move from the Productivity Commission to the Anti-Dumping Commission.

While the practical implications of this change will emerge over time, the direction of travel is clear. Consolidating safeguard and anti dumping functions within the Anti-Dumping Commission signals a more protection focused approach to trade remedies, with implications for domestic producers, importers and multinational businesses supplying into the Australian market.

Background to Australia's approach to trade remedies

The three principal trade remedy instruments available under World Trade Organization (WTO) rules are anti dumping measures, countervailing duties and safeguard measures.[1] Each serves a distinct purpose, but all are designed to protect domestic industries from certain forms of injurious imports.

Anti dumping measures address situations where goods are exported to Australia at prices below their "normal value" and cause material injury to domestic Australian industry. Countervailing measures respond to subsidized imports. Both are administered by the Anti Dumping Commission within the Department of Industry, Science and Resources (DISR).[2] The Anti-Dumping Commission conducts investigations and makes recommendations to the Minister.

Safeguard measures, by contrast, apply where a surge in imports causes or threatens serious injury to domestic producers. Historically, safeguard inquiries have been conducted by the Productivity Commission, reflecting Australia's long standing emphasis on productivity, competition and economy wide impacts rather than industry protection.

Current anti dumping and countervailing measures are concentrated in a small number of sectors, most notably steel and steel related products. As of the Anti-Dumping Commission's January 2026 Status Report, there were 53 active anti-dumping measures in place.[3] A significant proportion of these measures apply to steel products originating from China and

1 "Trade remedies", *Australian Government Department of Foreign Affair and Trade website*, accessed March 17, 2026. Find it here

2 "Anti-Dumping Commission", *Australian Government Department of Industry, Science and Resources website*, accessed March 17, 2026. Find it here

3 "Anti-Dumping Notice No. 2026/024", *Australian Government Anti-Dumping Commission website*, accessed March 17, 2026. Find it here

other Asian economies, including hot rolled coil, reinforcing bar, hollow structural sections and wire rods.[4]

Safeguard measures, by contrast, have been used more sparingly. In fact, the last investigation completed by the Productivity Commission was in 2013 and resulted in no imposition of any safeguard measures.[5] This reflects the relatively high evidentiary threshold required to demonstrate serious injury from import surges and reflect the Productivity Commission's focus on macroeconomics rather than local industry protection.

Australia's trade remedy landscape is changing

On 28 August 2025, the Australian Government announced a package of trade and productivity reforms that included the decision to transfer responsibility for safeguard investigations from the Productivity Commission to the Anti Dumping Commission.[6]

The announcement was included in a broader reform effort to streamline trade regulation, reduce costs for business and cut "nuisance tariffs". It also coincides with a one-off A$5 million increase in funding for the Anti-Dumping Commission from 1 July 2025.[7] Importantly, this institutional shift has deeper implications for how safeguard measures may be approached in the future.

While the Productivity Commission has traditionally assessed safeguards through a whole of economy lens — weighing consumer impacts, downstream costs and productivity effects — the Anti Dumping Commission's mandate is more squarely focused on injury to domestic industry. This does not mean outcomes are predetermined, but it does suggest a recalibration of priorities by the Australian Government.

The Government has not yet confirmed when the transition will formally take effect nor how existing legislative frameworks may be amended to support the change. Until further detail is released, safeguard investigations will continue to operate under existing rules, albeit with a clearly signaled change in future institutional ownership.

An efficient, and more protectionist, direction for future trade remedies

The philosophical distinction between the Anti-Dumping Commission and the Productivity Commission is central to understanding the potential impact of this reform. As an authority under the Treasury portfolio, the Productivity Commission has long been Australia's institutional champion of trade liberalization, competition and structural adjustment. Safeguards under its stewardship were assessed cautiously, with a strong emphasis on whether protection was justified in the broader national interest.

The Anti Dumping Commission, by contrast, is part of the Department of Industry, Science and

4 "Current measures in the dumping commodity register (DCR)", *Australian Government Department of Industry, Science and Resources website*, accessed March 17, 2026. Find it here

5 "Safeguard action investigations", *Australian government Productivity Commission website*, accessed March 17, 2026. Find it here

6 "Another 500 nuisance tariffs slashed to cut costs and boost productivity", *Minister for Trade and Tourism Special Minister of State website*, August 28, 2025. Find it here

7 "Strengthening anti-dumping", *Parliamentary Budget Office website*, accessed March 17, 2026. Find it here

Resources and is purpose built to assess industry injury and recommend trade remedies. Housing safeguard investigations within one authority (the Anti-Dumping Commission) aligns Australia more closely with key international partners. This includes the United States with its International Trade Commission's Investigations Office[8] and the United Kingdom with its Trade Remedy Authority.[9] In both cases, these single authorities are responsible for administering the three principal trade remedy instruments available: anti dumping measures, countervailing duties and safeguard measures.

What businesses need to know

Looking ahead, trade protectionism is spiking globally, and supply chain disruptions have exposed the fragility of global value chains. We may anticipate further strengthening of Australia's trade enforcement capabilities and additional industry support to protect sensitive sectors as we head to a new Commonwealth Budget.

For all firms exposed to the Australian market – whether domestic manufacturers, or foreign importers – the implications of the Anti-Dumping Commission taking responsibility for safeguard mechanisms are significant. Proactive businesses will be best placed to manage risk by closely monitoring developments and engaging early in future investigations.

Sectors with existing or expired trade remedies and/or investigations are likely to be particularly relevant, including:

- **Steel and aluminum products:** A long standing focus of Australia's anti dumping regime, with numerous measures currently in force, particularly against imports from China.
- **Chemicals and polymers:** Including products linked to construction and manufacturing inputs, where import surges can materially impact domestic producers.
- **Agricultural products:** The focus of several safeguard investigations by the Productivity Commission, including for pigmeat and processed tomato and processed fruit products.

Anti dumping investigations are complex, with companies at both ends of the spectrum – whether they be domestic production or importation or a foreign exporter – providing comprehensive cost and pricing data for technical assessment and detailed evidence-led submissions on injury and causation. Safeguard investigations, by contrast, are historically and generally less technical and more open, allowing a broader range of stakeholders – including importers, downstream users and industry bodies – to make submissions. What is certain is that the Anti-Dumping Commission will now chart a new course for future safeguard investigations.

Businesses should ensure internal capability to respond quickly to safeguard inquiries, particularly where import volumes, sourcing patterns or market share could be construed as contributing to serious injury.

Next steps

Although the shift of safeguard responsibility to the Anti Dumping Commission was announced on 28 August 2025, key details remain outstanding. Further government announcements will be needed to confirm timing, transitional arrangements and any legislative amendments.

Businesses should remain alert to new and emerging trade remedy investigations, across both anti dumping and safeguard measures. Early engagement, evidence based submissions and coordinated internal responses will be critical.

Taken together, this reform marks a clear signal that Australia's trade remedy environment is becoming more protection focused. While the practical impacts unfold, the direction is clear – and businesses exposed to the Australian market should be preparing accordingly. ■

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Japan 2026 tax reform: Abolition of 60% valuation rule and new domestic JCT framework on low-value goods

Japan's 2026 Tax Reform proposal introduces changes which may significantly impact the customs and consumption tax treatment of low-value imports, particularly those made through cross-border e-commerce. The primary objectives are to address the rapid increase of cross-border e-commerce and ensure tax fairness between imported and domestic goods. This article will address two key areas: the abolition of the 60% Customs Valuation Rule for personal-use imports and the introduction of a domestic Japanese Consumption Tax (JCT) on low-value goods.

1. **Abolition of the 60% Customs Valuation Rule (effective 1 April 2028)**

   The primary method of customs valuation is the transaction value method (i.e., the price actually paid or payable by the buyer, to or for the benefit of the seller, for the goods in an import transaction plus statutory additions). A special rule for imports by individuals allowed individuals importing goods for personal use to declare a customs value equal to 60% of their overseas purchase price at retail ("60% Rule"), meaning that individuals paid customs duties and import JCT on only 60% of their purchase price rather than the full price. The Tax Reform proposal will terminate this special rule, and duties and import JCT will be assessed on the full purchase price. There is a special provision in the customs rules which exempts import taxes (customs duties and import JCT) for goods with a customs value of JPY 10,000 or less, with certain exceptions. Accordingly, if the 60% Rule is abolished , individuals importing goods worth 10,000 JPY or more will be affected. For example, currently individuals who import goods purchased at 16,666 JPY or less will declare a customs value of 10,000 JPY or less (60% of purchase price) and would qualify for the import tax exemption. However, if the 60% Rule is implemented, the individual will declare the full value of the imported goods and will no longer qualify for the import tax exemption.

2. **Domestic JCT on low-value goods (effective April 1, 2028)**

   Under current rules, domestic JCT is not imposed on goods if their title transfers outside Japan before import clearance. However, this has created a loophole where low-value goods (≤ JPY 10,000) may escape both import and domestic JCT.

   The proposed reform will impose domestic JCT on such goods regardless of where title transfers. Sellers will be required to collect and remit JCT unless the sale is made through a second-class platform operator, that is a fulfillment service and e-commerce platform operator with annual revenue (including JCT) of 5 billion JPY or more and obliged to collect JCT and remit the JCT to the tax office on behalf of overseas sellers. This change will transfer the obligation from the seller to the platform operator.

   In a case where a shipment includes multiple items with different values, their JCT treatment will be rather complex. For example, if a consumer imports two items – one priced at JPY 9,000 and another at JPY 11,000 – the total shipment exceeds the import taxes exemption threshold of JPY 10,000 and import JCT will be incurred. Under the proposed JCT rules, however, the item of JPY 9,000 may also be subject to domestic JCT, potentially resulting in double taxation. In such a scenario, import JCT will not be charged to the item of JPY 9,000 if the seller is registered as a Designated Low-Value Goods (LVG) Seller (even if charged, the seller may credit import JCT in its tax return). There may still be operational challenges for implementation – for example, if the seller is a Designated LVG Seller, it would mean that the importer will be exempt from import JCT on Product A but will pay import JCT on Product B, and upon receipt of the goods the consumer will pay domestic JCT on Product A but not on Product B. As there is still time before implementation, we are hopeful that the final rules will address such operational challenges.

	Product A (9,000 JPY)	Product B (11,000 JPY)
Customs duties	**Yes** Total import value exceeds JPY 10,000	**Yes** Total import value exceeds JPY 10,000
Import JCT	**Yes/exempt if Designated LVG Seller** Total import value exceeds JPY 10,000	**Yes** Total import value exceeds JPY 10,000
Domestic JCT	**Yes** Title transfers before import clearance but LVG (value of JPY 10,000 or less)	**No** Title transfers before import clearance and not LVG (value exceeds JPY 10,000)

The 2026 tax reform marks a significant shift in Japan's approach to taxing low-value imports. Businesses engaged in cross-border e-commerce should begin preparing for these changes, including reviewing their import structures, status as platform operators and tax compliance systems. ■

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Japan: Signing of the Japan–Bangladesh Economic Partnership Agreement

Overview of the agreement

On 6 February 2026, Japan and Bangladesh signed the "Japan-Bangladesh Economic Partnership Agreement"[1] in Tokyo, marking Bangladesh's first-ever bilateral Economic Partnership Agreement (EPA).[2] The agreement is regarded as an "economic lifeline" for Bangladesh, as it will preserve duty-free access for Bangladeshi products to the Japanese market following Bangladesh's scheduled graduation from Least Developed Country (LDC) status[3] in November 2026, which would otherwise result in the termination of preferential tariff treatment. In addition to the liberalization of trade in goods and services, this agreement introduces new rules across a broad range of areas, including investment protection, intellectual property and dispute settlement. The agreement is expected to make a significant contribution to strengthening economic relations between the two countries.

Comparison with LDC preferential treatment

- **Product coverage and tariff reduction schedule**
  - Under the LDC preferential tariff system, almost all products were eligible for duty-free treatment with the exception of certain sensitive items such as rice, selected agricultural products and some leather goods.
  - Under the new agreement, Japan has committed to eliminating tariffs on approximately 91% of imports from Bangladesh (based on the trade value calculated from the average import value of 2022 and 2023)[4] either immediately or within 10 years of the agreement's entry into force. Most products that previously benefited from duty-free treatment under the LDC system will continue to enjoy duty-free access under the agreement. In particular, for apparel products, duty free treatment will take effect immediately. As a result, uninterrupted duty free access to the Japanese market will be secured even after the termination of LDC preferences. It should be noted that leather products and footwear are initially excluded from the scope of the agreement and will be subject to review within 90 days from the date of entry into force of the agreement.
  - Bangladesh will eventually eliminate tariffs on approximately 83% of imports from Japan (based on the trade value calculated from the average import value of 2022 and 2023), with a maximum staging period of up to 18 years. While Bangladesh has traditionally imposed relatively high tariffs on foreign products, it has committed to the phased elimination of tariffs on many industrial goods that constitute Japan's key export items, including steel and automotive parts.
- **Rules of Origin**
  - Under the LDC preferential system, apparel products classified under Chapter 61 and 62 are subject to a change in tariff classification at the two-digit level (CC) whereas most other products are generally required to meet a four-digit change in tariff heading (CTH).[5] In this respect, for apparel products, the LDC preferential system applies a single transformation while many EPAs impose a two-process rule, requiring two qualifying manufacturing processes to be performed in the EPA contracting parties.

1 Japan-Bangladesh Economic Partnership Agreement, *Ministry of Foreign Affairs of Japan*. Find it here

2 A Free Trade Agreement (FTA) mainly focuses on the trade in goods, whereas an EPA provides a broader framework covering services, investment, the movement of people and related rules

3 In Japan, imports from LDCs are eligible for more favorable tariff treatment than that available to developing countries under the Generalized System of Preferences (GSP)

4 Overview of the Japan–Bangladesh EPA", *Ministry of Foreign Affairs of Japan*, accessed 2 March 2026. Find it here

5 Appended Table (Article 9) of the Enforcement Regulations of the Temporary Customs Tariff Measures Act.

- The new agreement maintains similarly flexible rules of origin. As a result, apparel products can qualify as originating in Bangladesh even if the fabric is sourced from third countries and only the sewing processes are carried out in Bangladesh. This ensures that the same rule of origin requirements as under the previous LDC preferential system continue to apply, allowing Bangladeshi apparel products to continue to be exported to Japan on a duty-free basis.

Category	LDC Preferential Treatment	Japan–Bangladesh EPA
Product coverage and tariff reduction	Unilateral coverage applying only to exports to Japan. Japan grants duty-free access to almost all Bangladeshi products, excluding a limited number of sensitive items. Preferences apply while Bangladesh retains LDC status and may be phased out after LDC graduation.	Bilateral coverage applying to both countries. Japan eliminates tariffs on 91% of imports from Bangladesh (immediate elimination for apparel; leather products and footwear subject to post-EPA consultations). Bangladesh will eliminate tariffs on 83% of Japanese imports, with steel, automotive products and machinery liberalized gradually.
Rules of origin	A change in tariff heading (CTH, four-digit level) generally applies. For apparel products classified under Chapter 61 and 62, a change in tariff classification at the chapter level (CC, two-digit level) applies.	Rules of origin are determined by the Product-Specific Rules set out in Annex 2. For apparel products classified under Chapter 61 and 62, a change in tariff classification at the chapter level (CC, two-digit level) applies.

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Conclusion

Bangladesh will be able to continue enjoying duty free access to the Japanese market for most products even after its graduation from LDC status. In particular, apparel products, which constitute the backbone of Bangladesh's exports, will be granted immediate duty free access, allowing Bangladesh to avoid the risk of tariff increases that may arise in other countries following LDC graduation, at least with respect to Japan.

From Japan's perspective, the agreement offers the advantage of strengthening economic relations with Bangladesh on a long term and forward looking basis. For Japanese exports to Bangladesh, tariffs on a wide range of industrial products, including steel, automotive parts and machinery, which have traditionally faced high tariff barriers, will be eliminated progressively. ■

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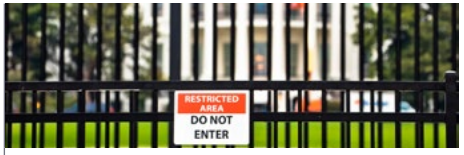

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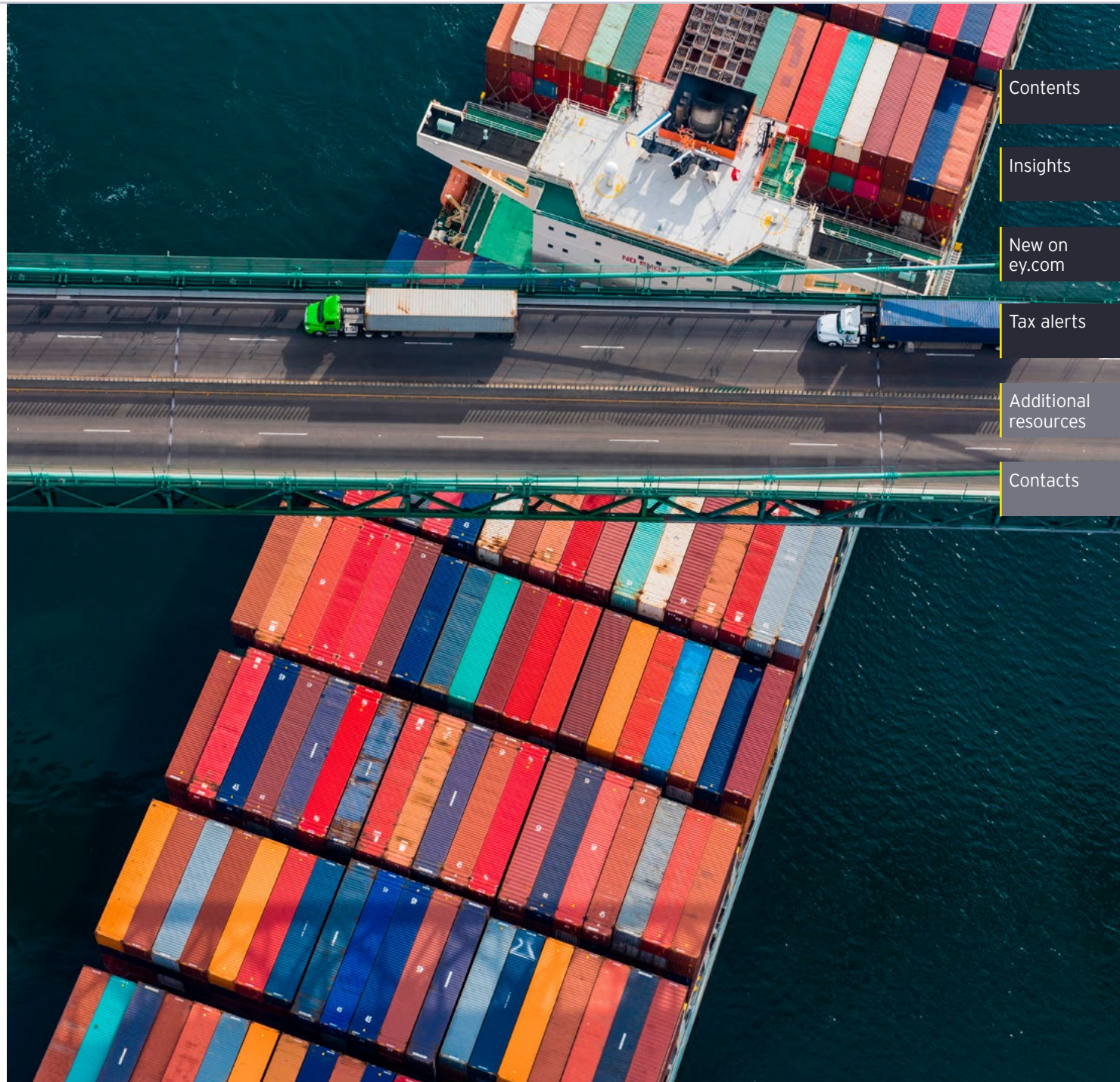

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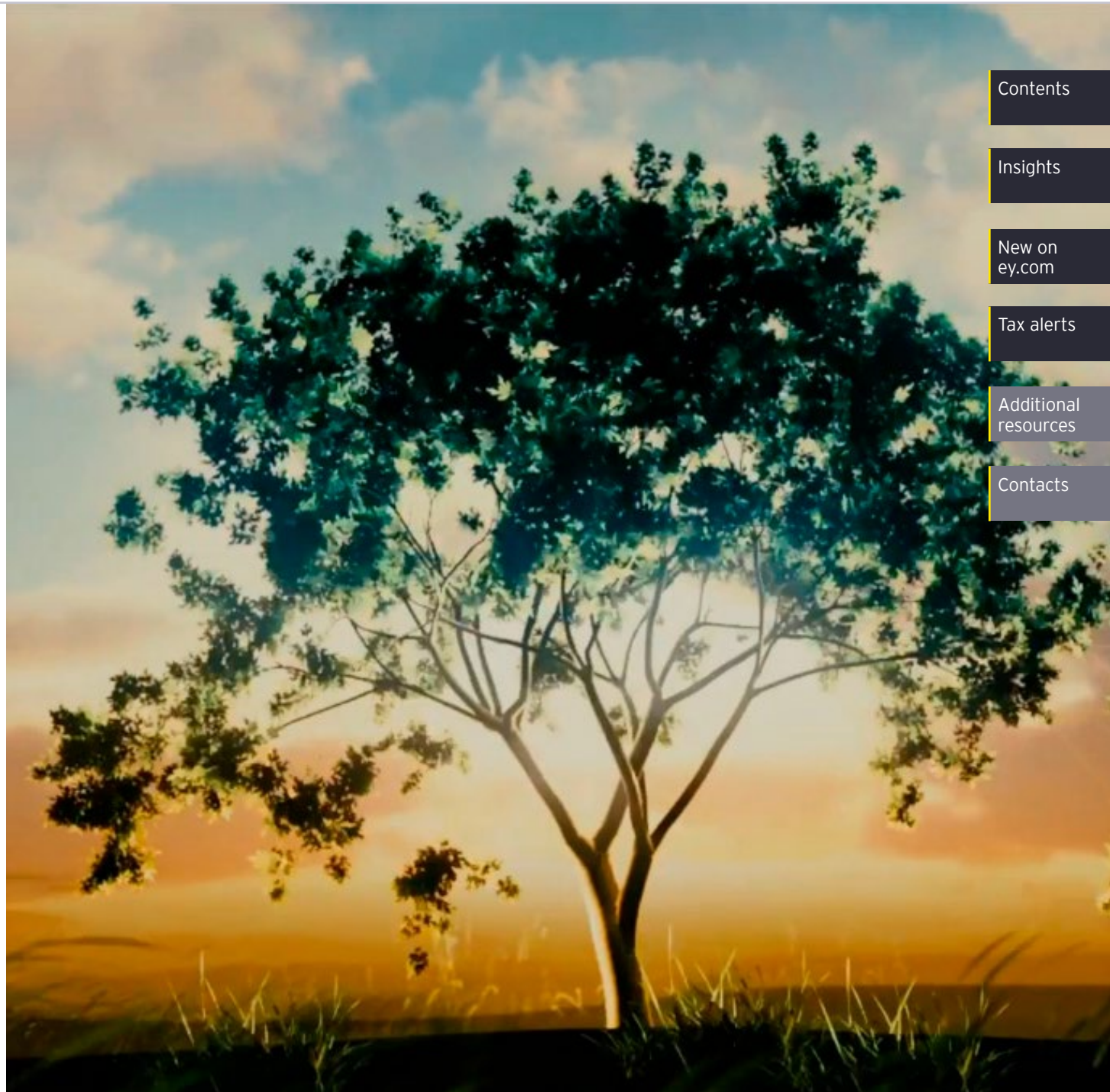

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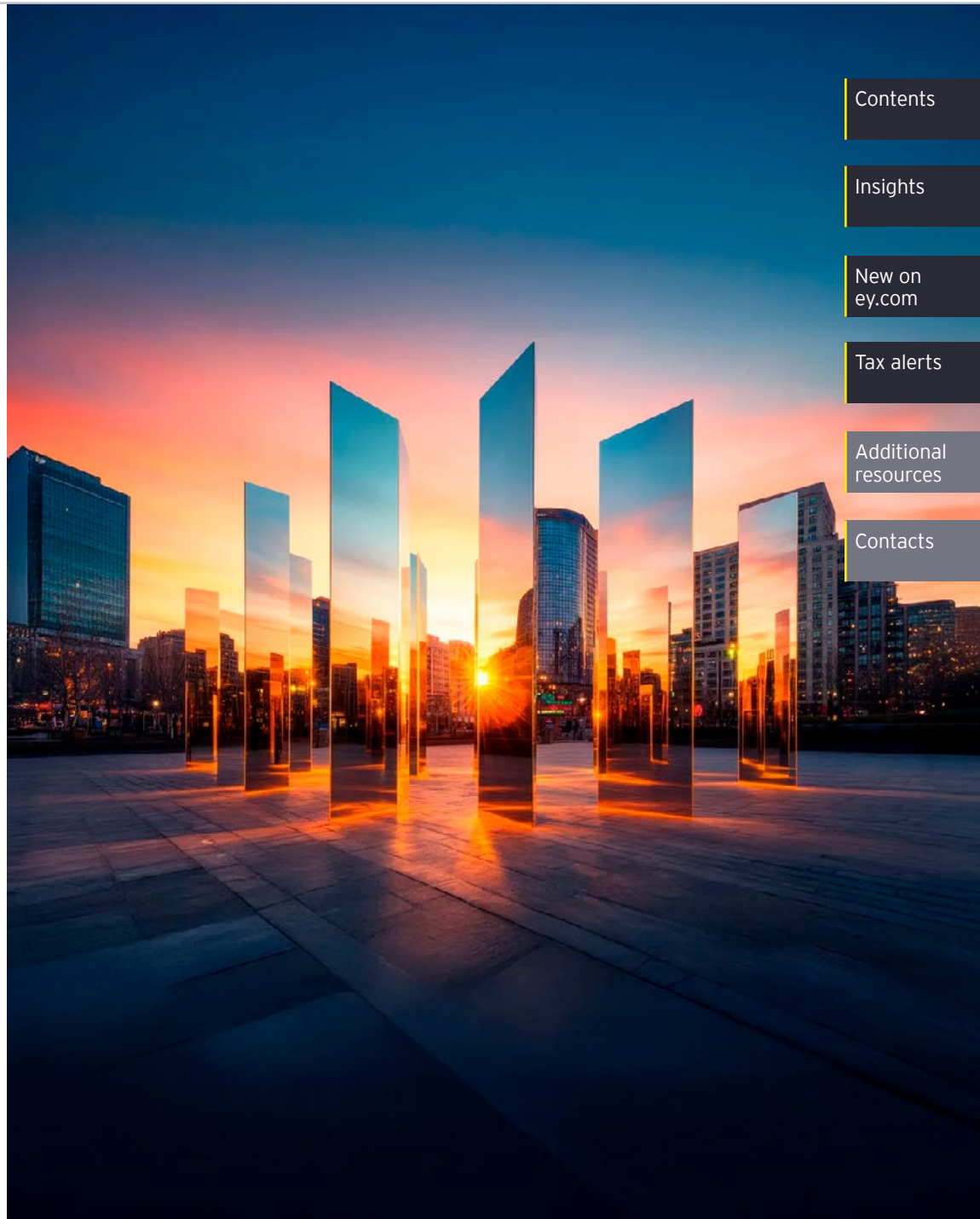
Outlining value-added tax (VAT), goods and services tax (GST) and sales tax systems in 153 jurisdictions, the 2026 edition of our annual reference book is now available to download as a pdf. The content is current as of 1 January 2026.

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.

Click here to find out more.



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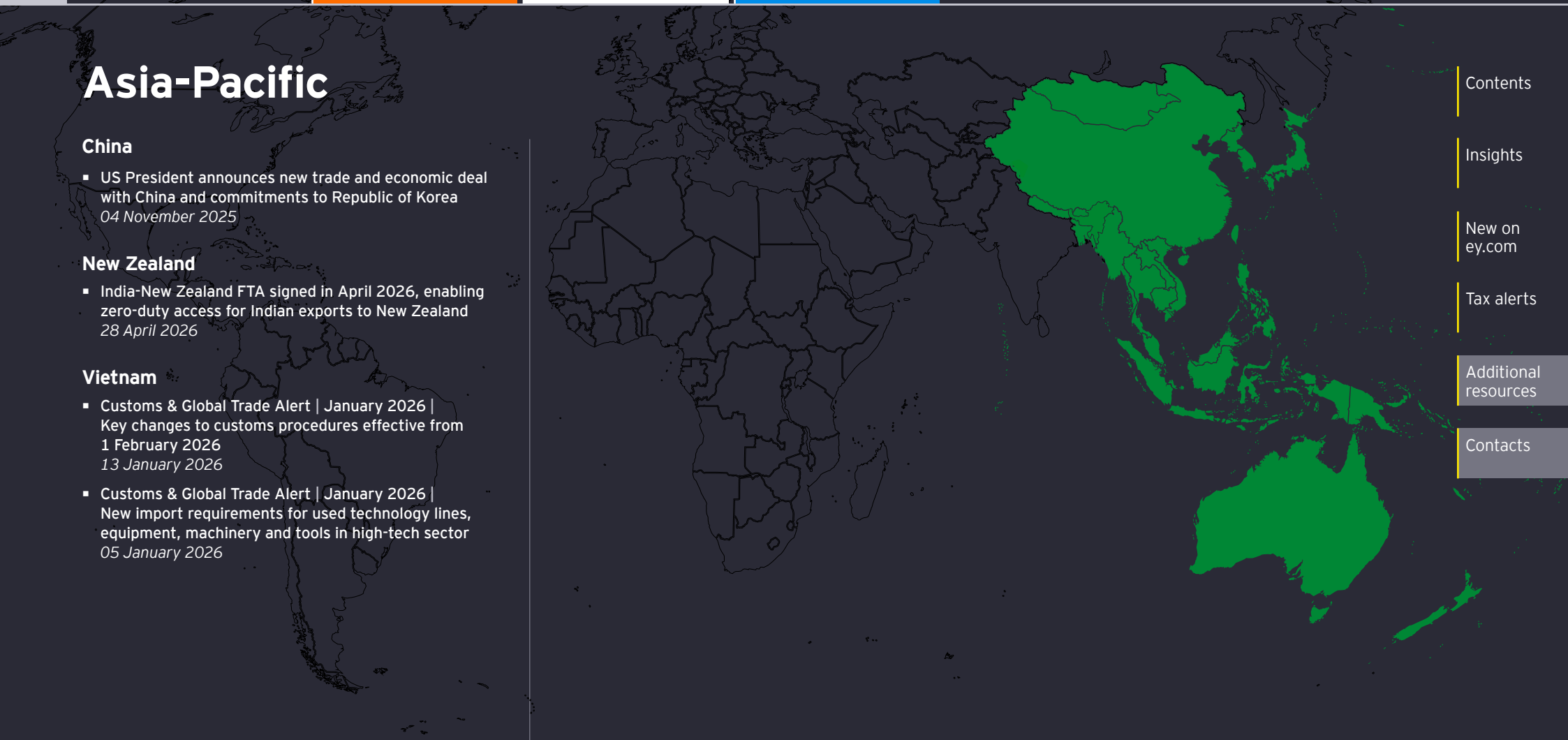

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