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Annex to the

**Proposal for a regulation of the European Parliament and of the Council laying down
the community customs code**

and to the

**Proposal for a decision of the European Parliament and of the Council implementing a
paperless environment for customs and trade**

IMPACT ASSESSMENT

{COM(2005) 608 final}

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1. EXECUTIVE SUMMARY

The volumes of goods moving across the EU borders are constantly increasing due to the global integration of production and delivery systems. The complexity of the modern supply chain, the number of parties involved, and the increasing volume of just-in-time deliveries require easily available information on international trade transactions both for suppliers, buyers, carriers, as well as for customs and other border agencies. The increasing use of information and communication technologies (ICT) throughout the supply chain has created a new business environment requiring an appropriate response by customs. Traders expect low customs-related transaction costs and rapid clearance of goods.

Customs has to ensure fiscal compliance as well as appropriate controls of goods entering and leaving the EU territory, to address increasing security and safety challenges. All this needs to be done while facilitating legitimate trade. This requires the efficient organisation of controls for the purposes of safety and security, the fight against counterfeit goods and drugs, illegal cash movements, and fraud against the budget of the Community or the Member States.

Since goods cannot move faster than the information that controls them, the efficient and timely exchange of information is a crucial component of international trade. It is also a key element for short release times and targeted controls using electronic risk management systems.

The Community and the Member States have committed themselves to increasing the competitiveness of companies doing business in Europe (Lisbon agenda) and to offering accessible and interoperable government services in Europe (e-Government).

The proposed legislation (a modernized Customs Code and a Decision on electronic customs) aims at achieving these objectives while complying with the Better Regulation initiative, through simpler legislation and ample stakeholder consultation. Furthermore, it is proposed to streamline and strengthen the management of the Customs Union not only by introducing pan-European electronic systems but also by adopting implementing rules, guidelines, pan-European decisions and reinforcing EC's capacity to provide for a prompt resolution of interpretation issues.

In order to determine the right approach to meet the challenges ahead, four policy options and their impact on the customs administrations, the business community and the society have been assessed. The results for each option are the following:

Option 1 (no further changes of the Customs Code) would mean that the recent security amendments of the Customs Code and the IT systems stipulated therein (handling of pre-arrival and pre-departure declarations, risk management framework) are implemented. As a consequence, the additional compliance costs (estimated at 1 200 million €) can be offset only to some extent through national initiatives introducing more efficient processes. The investment by the Commission and the Member States is estimated at 50 -60 million € per year.

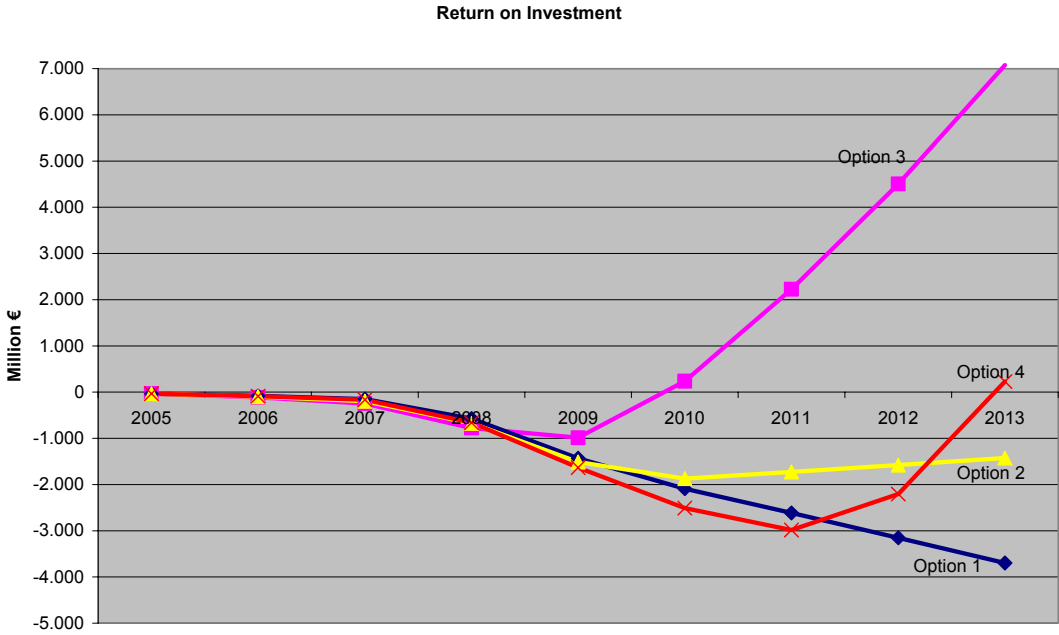
Option 2 (Decision on electronic customs under the existing legislation) would allow for a reduction of the security-related compliance costs by approximately 15 %, and would require additional investments of 40 - 50 million € per year by the Member States and the

Commission. However, this option would not allow for a return on the necessary security-related investments.

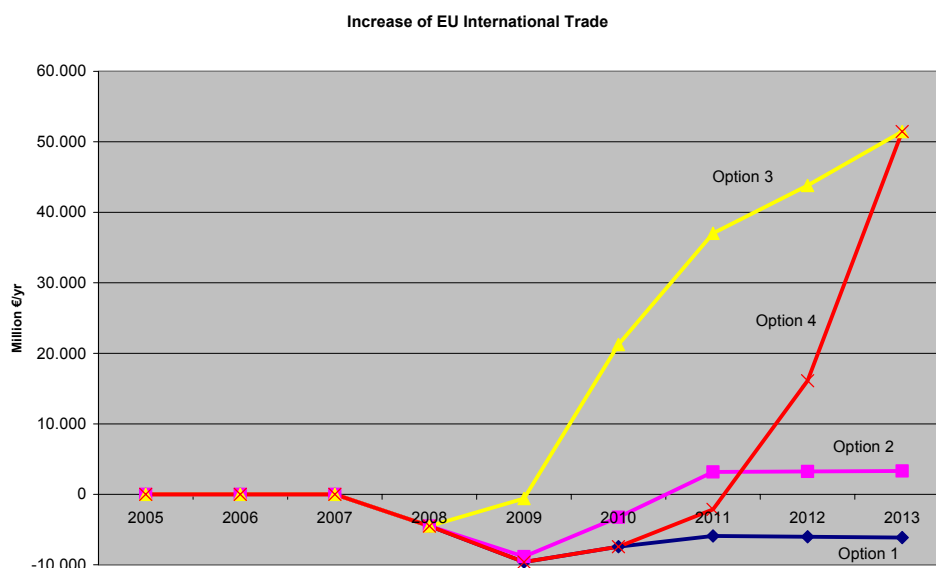
Option 3 (comprising the Decision under Option 2 and a modernized Customs Code), proposing streamlined integrated processes and the obligatory use of electronic declarations, will allow benefits for traders (estimated at 2 500 million € per year once the system is operational, at the earliest in 2009). This option would require additional investment of 40 - 50 million € per year by the Commission and the Member States.

Option 4 (modernized Customs Code and a centralized management of certain aspects of the Customs Union, in particular through a single integrated electronic system) would take more time to be implemented as it would shift operational responsibility from the Member States to the Commission. The cost of this solution for the Commission and the Member States would increase to over 200 million € per year and the benefits would accrue at a later moment due to the higher investment and the later introduction of the system.

The following graph illustrates the possible return on investment of the four options for the period until 2013 (this year has been chosen, as the successor programme to Customs 2007 will run until that year; both programmes will finance to a large extent customs IT developments at Community level).



A reduction of customs compliance costs can also lead to the creation of additional trade. The trends for the different options are shown in the following graph.



The trends for return on investment and for trade creation show, in the medium term (i.e. until 2013), the best results from Option 3. This is corroborated by the qualitative assessment which leads to the best results for Option 3 (for some criteria another option may have the same effect) with regard to:

- **lower compliance costs** due to:
 - simpler and streamlined legislation (better Regulation),
 - a paperless environment (e-Government),
 - customs information portals and Single Windows (e-Government),
- **reduced risk of fraud** through streamlined processes and timely electronic exchange of information;
- **better protection** of citizens, businesses and the environment through better targeted controls based on electronic information and risk management;
- **economic growth** through a more competitive and less burdensome environment, increasing international trade;
- **streamlining the management of the Customs Union**, in particular through the resolution of interpretation issues under the management or consultative procedure and the possibility for the Commission to request a Member State to revoke or amend a decision;
- **subsidiarity and proportionality**.

This option serves the interests of **small and medium sized enterprises (SME)**, too, as it:

- creates additional incentives¹ for participating in paperless trade (reduced delays, more efficient information processing),
- offers simplifications of customs processes, including the Single Window/One-Stop-Shop,
- facilitates the development of pan-European customs software packages, and reduces thus the cost of standard IT solutions,
- provides more opportunities for international trade due to lower transaction costs².

The results of this impact assessment coincide with the opinion expressed by most traders and administrations, namely that the Customs Code should be modernized and that electronic pan-European customs systems should be implemented as soon as possible.

2. ASSESSMENT OF THE CURRENT SITUATION

Growing trade volumes

The volumes of goods that move across borders have increased exponentially due to changes in the international trading environment stemming from the global integration of modern production and delivery systems as well as from new forms of electronic commerce.

Between 2002 and 2003, EU-15 exports have increased by 17% and imports by 20% and for the same period the US exported 4% more and imported 9% more (WTO database on world trade). After the 2004 enlargement, the EU-25 trade volume is expected to increase significantly as the following forecast shows.

	2003 Eur 25	2004 Eur 25	2005 Eur 25	2006 Eur 25	2007 Eur 25
Value Imp + Exp Eur 25 €	1 823 861 Million €	1 997 479 Million €	2 037 428 Million €	2 078 177 Million €	2 119 740 Million €
Quantity Imp + Exp Eur 25 Million Tonnes	2 012 323 Million Tonnes	2 111 084 Million Tonnes	2 153 306 Million Tonnes	2 196 372 Million Tonnes	2 240 300 Million Tonnes

Data source: Eurostat, Figures contain estimates for 2005 – 2007 based on a 2% growth compared to the previous year.

The figures are based upon information for Eur 25 received from Eurostat and do not take into account the trade between the 25 countries at any of the years mentioned. The growth of trade is linked with the general GDP growth in the EU and internationalisation of trade in general.]

Consequently, customs administrations must handle a rising number of customs transactions. From the trader's perspective, the costs of customs formalities are growing if the current way of doing customs business is maintained. Enormous benefits both for customs and trade will

¹ As noted by EUROPRO, "For the business community to engage with authorities, it has to receive incentives". Andrew Grainger, SITPRO, United Kingdom; A Paperless Trade and Customs Environment in Europe1: Turning Vision into Reality (June 2004), p.9.

² Such costs are dependent on the number of transactions rather than on the size of the company. Other decisive factors are the use of IT and of simplified procedures. See Verwaal/Donkers, Customs related transaction costs, firm size and international trade intensity, Small business economics, 21, p. 257 – 271, 2003.

derive from implementing a paperless environment for customs and trade (shorter delays, less scope for fraud, enhanced security, etc.).

Adapting to information and communication technologies (ICT)

Current legislation on customs procedures and processes is, in principle, based on paper declarations. Electronic declarations and the electronic submission of supporting documentation are considered to be exceptions to the rule and require the approval of customs authorities. However, in practice, all Member States offer electronic customs clearance and a large proportion of economic operators use such systems. Due to the lack of common rules for electronic clearance (apart from the new computerized transit system – NCTS), ICT systems differ from a Member State to another, and the lack of common standards for the use of ICT in the customs area effectively prevents electronic communication between these systems. In order to allow traders and customs administrations to reap the full benefits of an electronic environment, further convergence of the electronic systems is needed, in particular in order to further promote risk-based controls according to common criteria and priority control areas within the Single Market. Standardized clearance systems could contribute to facilitating international trade and strengthening security and safety checks at the external border of the Community.

Lack of pan-European software packages

Although the current Customs Code and its implementing provisions are applied throughout the EU customs territory, certain operational and implementation issues have been left to Member States provisions. The promotion of pan-European software packages will enhance uniformity in the implementation of Customs legislation.

In order to avoid complexity and costs, numerous multinational companies tend to concentrate all their customs-related activities within one Member State, importing or exporting all goods via one branch even though the goods are subsequently transported to another Member State. This may lead to longer and additional transports of goods and documents and, thus, to unnecessary environmental pollution. Energy and raw materials are used unnecessarily though, instead, a customs process could be performed electronically in the Member State where the trader is established.

A changing role of customs, focus on safety, security and fraud prevention

Based on multilateral and preferential trade arrangements, customs duties have constantly been reduced over the past 20 years. The WTO Doha Development Round will further reduce them. On the other hand, the role of customs has become more important when it comes to:

- contributing to security and safety in the international supply chain, particularly with a view to securing external borders from dangerous products entering into or leaving the Community;
- enforcing the application of agricultural, environmental, conservation and health policy measures in order to ensure the protection of human, animal or plant health and life and the environment;
- ensuring the protection of intellectual property rights.

Terrorism and organized crime do not stop at national borders; they have become a global problem. The recent past has, unfortunately, shown that the risk of such criminal activities is growing. The same is true for the risk of fraud, aiming to evade taxes and duties, and for illegal cash movements.

Trade facilitation

Passing through customs is a mandatory event in the movement of goods across borders and the procedures applied significantly influence the operation of domestic business in international trade and its contribution to the domestic economy. Effective and efficient clearance of goods contributes to increasing the participation of national business in the global marketplace, thereby contributing significantly to the economic competitiveness of nations. It also encourages investment and the development of industry and increases the participation of small and medium-sized enterprises in international trade. Modern trading practices make it essential for administrations to provide simple, predictable and efficient customs procedures for the clearance of goods while simultaneously tackling increasingly complex national and international requirements stemming from laws, international agreements and administrative practices.

In the current international business environment the need for simple, predictable and cost-effective formalities for cross-border movement of goods has been gaining increased focus, since increased economic growth can be achieved through greater participation in international trade.

Insufficient integration of customs and other policies

The current Customs Code deals mainly with procedures ensuring that customs duties are collected and provides for procedures allowing a suspension of duty liability. It does not reflect the shift of customs work to:

- enforcing prohibitions and restrictions imposed in order to ensure the non-proliferation of weapons of mass destruction, arms, dual-use items, or the protection of the environment, including endangered species;
- protecting national treasures possessing artistic, historic or archaeological value;
- protecting industrial or commercial property, including controls of counterfeit goods;
- ensuring that VAT and excise duties are paid at import and certifying exit for VAT and excise duty exemption;
- ensuring that the formalities for goods benefiting from export refunds are fulfilled.

3. OBJECTIVES OF THE DECISION ON ELECTRONIC CUSTOMS AND THE MODERNIZED CUSTOMS CODE

The Decision on electronic customs and the modernized Customs Code both aim at implementing the objectives of:

- the Commission Communication on e-Government³;
- the Commission Communication on e-Europe⁴;
- the Commission Communication on a simple and paperless environment for Customs and Trade and the Communication from the Commission on the role of customs in the integrated management of external borders, as endorsed by the Parliament, the Council and the European Economic and Social Committee⁵;
- the Better Regulation Initiative⁶;
- the WCO International Convention on the simplification and harmonisation of Customs procedures - the Kyoto Convention⁷; and
- the UN/ECE 'International Convention on the Harmonization of Frontier Controls of Goods⁸, in so far as it stipulates the introduction of a Single Window and One-Stop-Shop for import and export controls (the implementation of these concepts has so far been left to Member States).

The overall objective of the proposal is to modernise the Customs Code and to further promote the shift to a paperless environment for customs and trade with a view to responding to the problems and challenges identified above.

3.1. Specific objectives of the modernized Customs Code

3.1.1. Streamline and adapt customs rules, procedures and processes in order to achieve a simple and paperless environment for customs and trade

- by providing less complex and better structured rules and by incorporating several currently separate customs Regulations;
- by withdrawing existing empowerments for special national rules;
- by contributing to better coherence with other Community policies, notably indirect taxation, agricultural, commercial, environmental, health and consumer protection policy.

3.1.2. Enhance the effectiveness of customs legislation to ensure safety and security, compliance and reduce the risk of fraud

- by facilitating and speeding up the adoption of implementing provisions and guidelines to address problems as they emerge;

³ COM (2003) 567 final

⁴ COM (2002) 263

⁵ COM (2003) 452 final, and OJ No C 305, 16.12. 2003, p. 1.

⁶ White Paper on European governance, COM (2001) 428.

⁷ OJ No L 86, 3.4.2003, p. 23.

⁸ OJ No L 126, 12.5.1984, p. 3.

- by fostering Community-wide decisions and guarantees, and by providing the possibility for the Commission to request a Member State to revoke or amend a decision;
- by introducing a common framework for administrative and criminal penalties;
- by introducing common standards for electronic customs clearance.
- By providing an electronic risk assessment environment

3.1.3. Facilitate legitimate trade and enhance the competitiveness of businesses in the EU

- by simplifying customs legislation, notably by
 - merging the inward processing and the processing under customs control procedures,
 - merging the simplified declaration and local clearance procedure,
 - providing a single calculation method for duty relief after outward processing,
 - streamlining the rules on the incurrance of a customs debt;
- by facilitating the use of procedures that suspend import duties (notably temporary storage, inward processing);
- by facilitating centralized clearance (i.e. the electronic declaration is made from the premises of the operator, though the goods enter into the EU somewhere else, even in another Member State) for Authorized Economic Operators;
- by limiting the scope for customs fees;
- by laying down standards for the quality and accessibility of service to business, in particular with regard to trader registration, transparency, dialogue and deadlines for decisions, including for administrative decisions on appeals.

3.2. Specific objectives of the Decision on electronic customs

3.2.1. Promote the implementation of interoperable and accessible customs systems

- by launching the necessary ICT projects and actions already before the entry into force of the modernized Customs Code,
- by providing for a gradual transition between electronic customs systems based on the existing and the future legal provisions,
- by fixing the milestones aiming at a simultaneous introduction of pan-European customs systems.

3.2.2. *Commit all stakeholders to implement pan-European customs systems*

- by laying down a convergence framework and common standards,
- by providing the necessary human and financial resources,
- by monitoring implementation through a strong management structure ensuring participation or consultation of all stakeholders.

3.2.3. *Implement the Single Window and One-Stop-Shop*

- by addressing a Decision to the Member States, and not only to customs authorities for which the Customs Code could create obligations;
- by developing a common framework for national agencies dealing with imports and exports;
- by setting deadlines.

4. MAIN POLICY OPTIONS AND THEIR IMPACT ON BUSINESS AND CUSTOMS ADMINISTRATIONS

Option 1: No further changes of the Customs Code

The current legal framework is maintained; no legal nor operational changes are introduced, except provisions and systems required to implement the so-called “security amendment”, as laid down in Regulation (EC) No 648/2005⁹, which introduces the requirement of pre-arrival and pre-departure declarations and calls for a common risk management framework with common risk criteria and priority control areas. This involves the introduction of implementing provisions or electronic systems with regard to:

- the harmonisation of data requirements for, and the inclusion of security-related data in, summary declarations, both for import and export;
- the electronic transfer of summary declarations from the customs office of export to the customs office of exit where two Member States are involved (Export Control System - ECS) or from the customs office of import to the customs office of entry where two Member States are involved (Import Control System - ICS);
- an electronic system for the implementation of risk management, using Community profiles and priority control areas.

Current customs procedures would remain unchanged, and there would be no obligation for traders to lodge an electronic declaration (except for the obligations already existing for transit [NCTS] and summary declarations).

⁹ OJ No L 117, 4.5.2005, p.13.

Option 2: Decision on electronic customs only

In addition to Option 1, interfaces for data transmission would be created between Member States' electronic systems beyond the obligations created by Regulation (EC) No 648/2005 (in particular by enhancing the Import and Export Control Systems to cover also the placing of goods under a customs procedure) in order to encourage the use of electronic customs declarations and to avoid, where possible, duplication of information. Furthermore, the systems could interface with common platforms to be developed by the Commission like the Integrated Tariff Environment.

Such a Decision could also promote the development of 'Single Access Points' made available by service providers or administrations which allow economic operators to lodge electronic declarations from their premises to one 'Single Access Point' of their choice, irrespective of the Member State in which the goods are to be entered for a customs procedure. However, this option is limited to a 'passing on' service from the place where the declaration is received to the competent customs administration where the declaration has to be accepted and the duties and taxes are to be collected. Transparency could be increased through common customs portals.

Furthermore, such a Decision could be the basis for implementing the Single Window and One-Stop-Shop, given that it is not only addressed to the customs authorities but also to other border agencies (e.g. police, agricultural, environmental, health agencies).

As under Option 1, current customs procedures would remain unchanged and there would be no obligation for traders to lodge an electronic declaration beyond the current requirements.

Option 3: Modernized Customs Code in addition to the Decision under Option 2

This option goes further than Option 2 in the following aspects:

1. Electronic declarations are made compulsory, paper-based declarations being the exception for specific circumstances.
2. The additional function of 'centralised clearance' will allow authorised importers to declare the goods for a customs procedure from their premises, though the customs office where the goods are presented is in another Member State, and to deal only with the local customs office responsible for the place where they are established. The necessary exchange of information between the customs offices concerned is made possible through interoperable IT-systems handling such issues as the acceptance of the declaration; other Member States' customs administrations will be linked electronically so that they can provide supporting services in terms of risk information, control results, etc. This information will assist the competent customs offices to decide on the release of the goods, any physical checks, and to collect duties and taxes. Under this option guarantees would be valid throughout the Community (also in other cases than centralised clearance).
3. The importer/exporter would need to register for customs transactions only once in the Community, given that a common data system will be developed in which authorizations and other relevant data could be held, thus supporting the Single Window concept.
4. The existing customs regimes and simplified procedures would be streamlined as well, with the aim of achieving economies of scale, reducing complexity and clearance costs, enhancing

security and ensuring the correct collection of duties and taxes. This will be an additional contribution to the uniform application and implementation of EC customs legislation.

5. The uniform application of the Customs Code would be fostered through more efficient procedures for adopting implementing provisions (management procedure) and guidelines (consultative procedure), as well as by providing for the possibility that the Commission requests a Member State to revoke or annul a decision.

Option 4: Centralized management of certain aspects of the Customs Union in addition to a modernized Customs Code

A fourth option would be the introduction of a centralised management, at least for certain aspects, of the EU Customs Union, and in particular the creation of a centralized EU-wide information technology system. Such an approach would require a gradual phase-in of the central management and a simultaneous gradual phase-out of the current national systems. The centralized IT system would require specific security measures and back-up solutions (regional computing capacity) in case of a system failure at the central location.

A centrally managed IT system has been mentioned as the preferred option of some trade associations (e.g. UNICE) for reasons of simplification and time gains.

This option would imply an extension of the role and responsibilities of the European Commission so that it could ensure the automated customs operations by means of a centralized management where required, and the running of the customs IT systems in the EU. Here the goal is not so much to achieve interoperability of IT systems, but to offer a single automated customs system which would function at the required level of quality and speed throughout the EU. The current diversity in terms of accessibility for trade could be maintained if several trader interfaces would continue to function in parallel and provide access to the EU customs IT system.

5. EVALUATION

The impacts of the different options have been evaluated in particular with regard to compliance costs for traders (with special attention to small and medium-sized companies – SME), competitiveness, growth of international trade, the protection of society, and persons doing business in the customs field (notably customs officials, customs agents, freight forwarders). Whereas the evaluation of costs has been the subject of a quantitative assessment, the other impacts are, for the purposes of the present exercise, easier to approach in a qualitative manner.

5.1. How to evaluate costs

The costs involved in using either paper-based or paperless procedures in international trade transactions are not easy to quantify¹⁰. [Reduction of transaction costs could be achieved through simplification of procedures and processes and the use of international standards. The

¹⁰ For further information and studies on the measurement of transaction costs, refer to H. R. Coase - The Nature of the Firm, *Economica* 4 1973 and J. Wallis and D. North – Measuring the Transaction Sector in the American Economy, 1870-1970.

more paperless trade is used between all stakeholders, the greater are the benefits and the lower are the implementation costs for individual traders.

Billions of documents are exchanged every year in international transactions, implying enormous costs both for Governments and for international business¹¹. These costs, as well as the complexity of international trade documents and procedures, are a huge burden on businesses, and a major disincentive to many small firms for participating in international trade¹².

Direct costs

- Direct costs of compliance

In 1987, a study made for the EU by Ernst and Whitney¹³ led to the result that compliance costs have very little to do with the value of the goods traded. According to the study, compliance costs per consignment were 3 to 45 % higher for firms with fewer than 250 employees.

- Charges for trade-related customs services such as guarantee, customs agents' fees, logistic supply chain services, etc.

Academic studies suggest that the compliance costs for customs clearance services paid by economic operators may amount to 2% of the total value of imports or exports. UN sources even mention 7%, but this might be an average between all countries, including developing countries.

The most appropriate method identified to estimate compliance costs is based upon the multiplication of the number of declarations by the average value of costs per declaration. Several references and a survey have indicated that costs may vary as widely as 10 to 80 € but are likely to average around 30 to 40 € per declaration, leading to the following compliance costs estimate for the EU trader community:

		2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of transaction	Million trans/yr	120	122	125	127	130	132	135	138	141
Current costs	35 €/trans Million €/yr	4.200	4.284	4.370	4.457	4.546	4.637	4.730	4.824	4.921

However, some trader data suggest that currently the total costs of compliance are actually closer to 1 000 million €/year, suggesting in turn that some of the traders already enjoy compliance costs in the range of only 10 €/transaction.

The current costs indicated above take already into account the submission of declarations in a largely automated environment at national level¹⁴.

¹¹ According to data provided by IATA: 30 USD paper processing cost per airway bill; 35 mio airway bills p.a., 1 Billion USD cost p.a.
¹² Paperless trade: Benefits to APEC, 2001, p. 18.
¹³ Ernst and Whitney 1987 “The cost of non-Europe”: Border-related controls and administrative formalities”, Vol-1 Commission of the European Communities, pp.7-40
¹⁴ Prof. Verwaal (Customs related Transaction Costs, Firm Size and International Trade Intensity, E. Verwaal and B. Donkers, Rotterdam) identifies "transaction related economies of scale, simplified customs procedures and advanced information and communication technology as main determinants of

Indirect costs

Other costs which would be significant are:

- costs of delays related to customs clearance,
- inventory holding costs associated with such delays (no just-in-time delivery),
- opportunity costs, such as lost business opportunity, and less control of the goods' flow due to customs and other border procedures.

- Costs linked to the clearance time

In the context of the feasibility study on electronic customs conducted in 2003, four Member States provided the following information on customs clearance times:

All express a generally positive opinion of their own efficiency. The opinion of the trade is (unsurprisingly) somewhat different and for some industries, e.g. the express courier business, clearance time will never be short enough until it is nearly instantaneous with arrival. In other sectors, the “just-in-time” approach to inventory also means that clearance time is a crucial factor for the competitiveness and profitability of the business.

The following examples provided by Member States show that clearance times are normally shorter where electronic systems are used:

Finland:

- For *paper-based* import clearance, current achievements average 0.23 hours for airfreight and 0.48 hours for sea freight.
- For *paper-based* export clearance, current achievements average 0.2 hours for all modes of transport.
- For *electronic* import clearance systems, current achievements average 0.2 hours for all modes of transport.
- Trader expectations for imports are given as instantaneous for all modes of transport.

Germany:

- For paper-based clearance, current achievements average 0.1 hours, irrespective of the mode of transport for both imports and exports.
- For electronic import clearance systems, current achievements average 0.1 hours, irrespective of the mode of transport.

customs related transaction costs." He also writes that “customs related transaction costs repress the international trade intensity of firms” and furthermore that “customs related transaction costs might be even more detrimental for the international trade activities of small firms than for those of larger firms. ... The costs of customs procedures are very unevenly distributed across firms.”

- Trader expectations are given as 0.1 hours for all modes of transport, except air for which business expects instantaneous clearance.

Greece:

- For paper-based clearance for both imports and exports, current achievements range from 1 to 4 hours for air, road and rail transport, and from 2 hours to two days for sea transport.
- Trader expectations for both imports and exports are given as less than 1 hour for air transport, and less than two hours for road and rail transport. For sea freight, traders expect less than two hours for perishable goods and less than one day for non-perishable goods.

Sweden:

- For *paper-based* import clearance, current achievements average 0.5 hours for all modes of transport with a marginally quicker achievement of 0.4 hours for perishable goods imported by air.
- For paper-based export clearance, current achievements average 0.3 hours for all modes of transport with a marginally quicker achievement of 0.25 hours for air transport.
- For electronic import and export clearance systems, current achievements average 0.2 hours for all modes of transport with a marginally quicker achievement of 0.1 hours for air transport.
- Trader expectations are instantaneous clearance, irrespective of the mode of transport for both imports and exports.

Electronic import and export clearance systems permit automated risk analysis for the decision on whether or not a physical inspection will be made. This leads to time gains for the information of economic operators of an inspection or the release of the goods.

5.2. Option 1: No further changes of the Customs Code

Under this option, the current Customs Code, as recently amended¹⁵, applies.

5.2.1. Economic impact

Disrupting effect of paper-based procedures in a paperless business environment

Though summary declarations will have to be lodged electronically and automated systems for exchange and risk analysis of these data will have to be in place three years after the entry into force of the so-called security amendment, for all other declarations (except transit under NCTS) traders will remain entitled to submit paper-based declarations and documents. However, given the exponential growth in trade volumes, a paper-based approach to international trade transactions will soon reach its limits. Even small companies will not be able to use paper documents in international trade if the business environment (banks, suppliers, clients, freight forwarders etc.) insists on paperless documents. Customs processes,

¹⁵ OJ No L 117, 4.5. 2005, p. 13.

if performed on paper, would interrupt the electronic flow of data in place or presently introduced.

Costs of maintaining current customs rules and procedures

Procedures with a large variety of options increase costs for business and can act as a prohibitive barrier to international trade. Large corporations can employ staff that can cope with a large variety of customs regimes, or delays in inspection regimes; small businesses cannot. Where a company has a small number of international business transactions, it cannot compensate for unforeseen duties (such as a post clearance recovery due to a mistake caused by complex rules) or delays, which both increase the cost of the transaction and cut into profitability. Simplification and rationalisation of the customs rules and processes is now one of the top priorities of traders and other stakeholders applying the Customs Code because complex rules and procedures lead to high compliance costs (see Annex 2).

Under the current Customs Code the following issues have been left to Member States for implementation:

- the appeals procedure;
- penalties;
- the possibility of restricting the right to make indirect or direct customs declarations so that the representative must be a customs agent established in the Member State where the declaration is lodged; and
- the possibility of introducing or maintaining in certain cases national simplified procedures.

Such national rules might affect importers or exporters having to deal with the customs administration of more than one Member State (that may already be the case where the goods enter into the Community via another Member State than that where the importer is established) in terms of compliance costs.

Moreover the need for a common approach to customs penalties is equally linked to the status of the authorised economic operator. Indeed, if the penalty record is going to be one of the conditions to obtain an AEO status applicable in all Member States, the basis for these penalties should be common.

Apart from such empowerments for national rules, also some of the Community rules leave a variety of options which need to be considered in order to choose the most favourable solution, such as the choice between:

- the inward processing suspension or drawback system (where the conditions for both regimes are fulfilled), or
- the differential or value added method of duty relief after outward processing (where the conditions for both regimes are fulfilled).

In addition, it has to be established for each variant whether it is applicable in the concrete case or not. Such rules require the services of a specialist, either within the company or by an external service provider. Both solutions increase compliance costs.

Additional costs of implementing the security amendment of the Customs Code

Though many traders have already invested in supply chain security systems, traders expect an increase of customs compliance costs due to new obligations under the security amendment of the Customs Code, even if they make use of facilitations offered to Authorized Economic Operators (AEO). In parallel, the Commission and the Member States will have to invest in order to implement the automated systems required under this amendment. Though individual estimates on costs (staff, premises and equipment) vary widely, traders expect on average an increase of their costs of 25%, i.e. approximately 1 200 Million €/year.

Under this option no cost reduction is possible (as no additional Community measures are foreseen), apart from any facilitation initiatives individual Member States may take. Such initiatives could reduce the additional compliance costs by 15%, equivalent to approximately 700 Million €/year. However, it is unlikely that such saving can materialise before 2009. Further benefits may arise when third countries recognize the AEO status of Community exporters for facilitations on importation into their country.

The costs indicated above take already into account the submission of declarations in a largely automated environment at national level.

Costs for parallel use of electronic and paper-based systems

The recent amendment of the Customs Code¹⁶ provides for electronic summary declarations and the electronic exchange of data between the Member States' customs systems after a transitional period. However, for other declarations (except transit under NCTS) the use of paper-based procedures will not be excluded. As a consequence, there will not only be 25 different interfaces of national customs systems for economic operators, but also a parallel use of paper-based procedures. The need to offer both options will be more costly for the customs administrations, but parallel circuits will also slow down the handling of declarations, and therefore have a negative effect on economic operators.

Costs of information research and non-compliance due to lack of information

In the absence of common information portals giving access to regulations and rulings, economic operators have to spend additional human or financial resources in order to obtain information. Furthermore, due to insufficient information, they will have additional expenses for repayment/remission requests, administrative or judicial appeals, and penalties.

Risk of fraud

The risk of customs and tax fraud will increase in parallel with the trade volume if no additional measures, such as efficient and interoperable ICT systems involving all Member States, are installed. Furthermore, the partial lack of electronic information (where paper-based declarations are used) will make electronic risk management systems less efficient.

5.2.2. Social impact

Safety and security

¹⁶ Reg. (EC) No 648/2005, OJ L 117, 4.5.2005, p. 13.

The security amendment of the Customs Code provides for electronic pre-arrival and pre-departure declarations, and has laid down the foundations for efficient risk analysis. Risk management, based on common risk criteria and exchange of risk information between Member States, will allow the Community to face its new security challenges. However, for customs declarations, other than transit under NCTS, paper-based procedures will continue to exist in parallel, maintaining loopholes in automatic risk management systems.

Protection of the cultural heritage, public morality and public policy

A common risk management will also enhance the protection of national treasures of artistic, historic or archaeological value and improve the enforcement of prohibitions and restrictions imposed for the purposes of public morality and public policy. Independent actions of Member States will not only be much less efficient, but also cost much more than a common approach. The parallel use of paper-based procedures will maintain loopholes in automatic risk management systems.

Risk of Job losses

The present scenario does not allow the companies established in the Community to face the customs-related challenges of economic globalisation and the increasing trade volume. Delays at the border because of complex rules and paper-based procedures will hamper the competitiveness of companies importing raw materials or intermediate products or exporting on the world market. If other countries or economic regions can offer more favourable conditions related to import and export clearance, job losses in the private sector (processing enterprises, exporters) throughout the Community (or in Member States with less favourable conditions) may be the consequence.

If the Customs Code is not amended, this would also mean that the current empowerment of Member States to restrict the right to make customs declarations by direct or indirect representation to customs agents carrying on their business in that Member State would be maintained (unless the European Court of Justice decides that Art. 5 (2) (2nd subparagraph) CC is incompatible with the rules of the Single Market). This situation maintains business – and avoids competition from other Member States - for the customs agents¹⁷ in the Member States concerned (notably Greece, Italy, Portugal, Spain and Poland)[. On the other hand, importers and exporters using such services have higher customs clearance costs due to a lack of competition. This in turn hampers international trade and thus economic growth. Furthermore, as multinational companies try to avoid, wherever possible, customs clearance in Member States with higher compliance costs, jobs may be lost or business opportunities missed in the Member States applying such restrictions.

5.2.3. Environmental impact

As a result of the security amendment of the Customs Code, a Community-wide risk management system will reduce the risk of threats to public health and the environment in parallel with the risk of fraud. Such systems can, however, not work efficiently where paper-based procedures are used. The current Customs Code leaves traders the choice whether to lodge an electronic or a paper-based customs declaration (apart from transit under NCTS).

¹⁷ Customs agent: professional activity which consists of accomplishing import and export formalities on behalf of the trader.

The parallel use of paper-based procedures will maintain loopholes in automatic risk management systems also with regard to environmental risks.

Under the current Customs Code centralized import clearance is rather the exception than the rule. This causes in certain cases longer or additional trips to transport goods or documents for procedural reasons (see point 2.1.3.), and thus harms the environment.

5.3. Option 2: Decision on electronic customs only

Without changing the Customs Code, customs rules and procedures would remain as today. Member States could, however, based on a Decision on electronic customs, commit themselves to computerizing customs rules and procedures within the existing legal framework and create interoperable customs systems, both within the same Member State and with regard to other Member States, without re-engineering the customs business.

Accessibility for traders will be limited to today's situation where national (not harmonised) interfaces for traders exist. Service providers and administrations could be encouraged to create single access points, allowing economic operators to use a single interface to lodge customs declarations, even if the customs procedure is carried out in another Member State; but as long as the legal requirements are not fully harmonized, the trader would have to comply with the rules in force in the Member State concerned.

The existing empowerments for national provisions will not be abolished under this option. Companies doing business in more than one Member State often would have to continue using the services of national customs agents or establish branches in all Member States where they are operating, even if they could use electronic customs procedures. As an alternative, they could concentrate their customs-related activities within one Member State.

5.3.1. Economic impact

This option would not take into account that one of the top priorities of traders and other stakeholders applying the Customs Code is to simplify and rationalize customs rules and procedures in order to decrease compliance costs in the EU.

Avoiding duplication of information through interoperable customs systems

Even though customs will have to deal with both electronic and paper-based processes and procedures, economic operators have the option of using electronic procedures exclusively. Accessibility of customs systems will facilitate the exchange of information between economic operators and Member States' customs systems. Unnecessary duplication of information will be avoided to a great extent, which will result in time and cost savings, not only for customs, but also, and primarily, for economic operators.

- *Single Window and One-Stop-Shop*

The concepts of the Single Window and One-Stop-Shop describe the cooperation of all the authorities and agencies involved in customs transactions. In order to achieve this objective, the respective entities must be able to exchange or access the necessary information in electronic form. Traders should be enabled to submit all data related to an import or export transaction and required by different authorities and agencies to the same electronic address

(Single Window). Physical controls required by different authorities and agencies involved in customs transactions are performed at the same time and at the same place (One-Stop-Shop).

The cooperation between the authorities and the electronic data exchange instead of validating paper documents will substantially simplify the work of economic operators. Avoiding red tape, economic operators will save time and money. Moreover, this will contribute to efficient risk management and to the effective control and review of the AEO status. However, without an obligation to submit all data electronically to customs, the full benefits of the Single Window and One-Stop-Shop cannot be achieved.

Reduced risk of fraud

The risk of fiscal fraud and tax evasion is anticipated to decrease if efficient and interoperable automated customs systems involving all Member States are installed. However, without an obligation to submit all data electronically to customs, the full benefits of automated risk analysis cannot be achieved.

Additional investments for Member States and the Commission

The following table presents global cost estimates for the Member States and the Commission for Options 1 and 2.

Costs estimates for: (Million €)	2006	2007	2008	2009	2010	2011	2012	2013
Option 1: additional costs								
Commission	21,1	21,1	24,0	23,5	22,2	21,6	20,5	20,5
Member States	28,9	46,2	43,3	37,6	32,8	32,9	32,9	32,9
Total	50,0	67,3	67,3	61,1	55,0	54,5	53,4	53,4
Option 2: additional costs (on top of Option 1)								
Commission	2,8	2,8	6,0	8,5	7,0	6,5	6,5	6,5
Member States	13,5	28,9	46,2	43,4	37,7	32,9	32,9	32,9
Total	16,3	31,7	52,2	51,9	44,7	39,4	39,4	39,4

The costs include investment and operation.

The costs estimated with regard to the EU budget concern the introduction of electronic services not needing a new legal basis, such as single access points and customs portals. The costs for Option 1 are mainly the costs related to the implementation of the security related amendment of the Customs Code. If Option 2 is taken, the costs of Option 1 will remain as investments and need to be completed by the additional costs indicated under Option 2 in the table above. These additional costs are mainly investments for the purposes of automation of customs related processes.

Costs of parallel use of electronic and paper-based customs procedures

Even if Member States provide for interoperable customs systems, they will not be mandatory for economic operators, as paper-based procedures may still be used.

Based upon the results of a limited survey, one could expect a decrease of the additional compliance costs caused by the security amendment of the Customs Code of about 15% as a result of computerisation efforts aiming at economies in the compliance cost level for traders. The set up of electronic customs systems based on a Decision at European level alone (i.e. without a modernized Customs Code), would allow to achieve an additional saving of around 700 million €/year, as it will decrease the costs for the trader community submitting electronic declarations, given that they would be able to concentrate their declarations on a single access point of their choice. However, the choice of technology is a critical factor, as web-based solutions, especially if they are offered by customs administrations (e.g. virtual customs office in Sweden), have practically no cost for the trader.

Conclusion

There is no doubt that the use of electronic techniques for information transfer will significantly contribute to more efficient trade and customs transactions; however, it should be understood that this objective will fully be attained only if the basic customs procedures are streamlined and modernized. Facilitation and simplification of trade procedures and documents should take place prior to automation¹⁸. Automating complex customs procedures reduces the gains in efficiency that can be made using paperless technologies. Complex and diverse paperwork requirements are also a large obstacle to the introduction of the paperless trade¹⁹.

5.3.2. Social impact

Safety and security

As for option 1.

Protection of cultural heritage, public morality and public policy

As for option 1.

Risk of job losses and reallocation of resources

Interoperable accessible automated customs systems would be an essential step towards trade facilitation. Trade facilitation increases the degree of competition faced by domestic producers through a reduction of transaction costs associated with import transactions. This may result in job losses for those who have handled inefficient paper-based procedures but can increase welfare in longer term by allowing a country or a region to improve its efficiency in production in three ways²⁰:

- increasing the efficiency with which existing resources are allocated;

¹⁸ “The Basic Guideline for Paperless Trade in ASEM”, 2005, 2 drafted by the Republic of Korea, based on the results of its successful pilot project, insists on the necessity for standards in electronic documents and draws attention to the work of the UN/CEFACT in this area.

¹⁹ Paperless trade: Benefits to APEC, 2001, p. 5.

²⁰ Sharing the gains of globalization in the new security environment: the challenges of trade facilitation, Economic Commission for Europe, United Nations publications, Geneva 2003 pp. 73 ff.

- encouraging specialization and the reallocation of resources towards those activities that reflect the country's or area's comparative advantage; and
- allowing exploitation of economies of scale through exports to the world market.

For customs administrations, as a consequence of automating certain tasks and avoiding a duplication of processes, human resources could be used for other tasks of growing importance (such as a better control of the supply chain and of security).

With regard to customs agents in Member States excluding competition from other Member States see point 4.2.2. The increased use of pan-European electronic customs systems and service providers may lead to the effect that the countries concerned are partially excluded from the benefits offered by such systems or providers if a declaration made by a customs service provider from another Member State is not accepted.

[The scenario described in the following 3 paragraphs does not seem to be contemplated under Option 2 which only covers the Decision on e-customs. Does this mean that if we adopted the Decision on e-customs alone, we would change the legislation on customs agents ? The same question for the division of tasks between customs offices in cases where electronic declaration is not the rule, and for centralised clearance.]

5.3.3. *Environmental impact*

As for Option 1. If more electronic communications are made, less paper may be used, however.

5.4. **Option 3: Modernized Customs Code in addition to the Decision under Option 2**

If pan-European electronic customs systems are implemented on the basis of the current Customs Code (Option 2), complex customs rules and empowerments for national special provisions would have to be taken into account. Option 3 goes one step further and combines the Decision on electronic customs with the introduction of a modernized Customs Code.

5.4.1. *Economic impact*

Reduced compliance costs due to less legal complexity

Simplification and rationalisation of customs rules and procedures, one of the main objectives of the modernized Customs Code, is a top priority of traders and other stakeholders (see Annex 2). The modernisation of the Customs Code provides a unique opportunity for streamlining and simplifying the legislation and thus fulfilling the objective of the "Better Regulation" initiative²¹. Once the modernized Customs Code is adopted, its implementing provisions will also need to be streamlined and simplified in order to achieve the objective of reduced legislative complexity.

In particular the following simplifications will result in cost savings due to an easier access to customs rules, which will require less training and expertise, and will lead to fewer or easier transactions:

²¹ White Paper on European governance, COM (2001) 428

- only one type of simplified declaration procedure;
- common rules for temporary storage and customs warehousing;
- common rules for inward processing and processing under customs control;
- simpler rules on the customs debt,
- a logical structure of the text and less technical jargon which make it easier for everybody to understand the rules and procedures of the Customs Code.

The same line will be followed in the implementing provisions, and guidelines will further help in the understanding of the rules and in ensuring their uniform application throughout the Community.

Reduced compliance costs due to the abolition, merger or alignment of customs rules

The proposal for a modernized Customs Code foresees the abolition of the inward processing drawback system. Companies using this system will be able to use the inward processing suspension system instead, given that the current restriction (intention of re-exporting the products resulting from the processing, Art. 537 CCIP) will be lifted. This allows combining inward processing with the current processing under customs control procedure so that the products resulting from the processing can – where no specific restrictions (notably for agricultural or commercial policy reasons) apply – either be re-exported or put on the Community market. This provides more flexibility for processing enterprises, and a cash flow advantage where the inward processing drawback system has been used before.

Under outward processing, only the value added method for calculating import duties will be retained. The so-called differential method (Art. 151 CC), under which the fictitious duties on the export goods are deducted from the duties on the import goods, will be abolished. This simplifies the rules, as it will no longer be necessary for traders:

- to establish whether both variants of duty calculation apply,
- to calculate the duty relief under both variants, and
- to request the application of the most favourable variant.

On a global level, the benefits of this simplification are greater than the duty advantage which may result from using the abolished method of duty calculation.

The alignment of temporary storage and customs warehousing will increase flexibility for importers in so far as they will no longer be restricted by the existing deadline for temporary storage (Art. 49 CC).

Reduced compliance costs due to standard rules

Existing empowerments for national provisions will be abolished. This will facilitate pan-European strategies and processes, including the development of common software packages. A simpler structure and a maximum of common elements across different arrangements will require less programming efforts for the implementation of the customs rules. Companies doing business in more than one Member State may save costs if they can centralize their

customs-related activities where they are established, even if they import or export goods via another Member State, without having to deviate their economic activities or transport routes. This is particularly important for small and medium-sized enterprises who cannot easily perform customs clearance in another Member State or who currently need to use a transit procedure before placing the goods under the customs procedure actually envisaged. A common framework for administrative penalties will also contribute to achieving a level playing field.

More competition between customs service providers, due to standard procedures and data requirements, is anticipated to lead to lower prices of import and export goods. The increased competition between customs service providers will create additional opportunities for SME in cases where customs compliance costs reach a level which makes international trade attractive to the company.

Abolition of restrictions for customs agents

The current Customs Code allows that a Member State restricts the right to make customs declarations by direct or indirect representation, so that the representative must be a customs agent carrying on his business in that country's territory²². The abolition of such restrictions will lead to a better functioning of the Single Market. In order to maintain a high level of service and to create a level playing field for customs representatives, it could be envisaged to set common professional standards. Where a customs representative applies for AEO status, such standards will apply already by virtue of the Customs Code and its implementing provisions.

Furthermore, maintaining such boundaries between Member States removes one of the principal benefits of the ability to lodge electronic declarations, as it is intended that this should no longer be dependent on the place where the goods are presented to customs. Such barriers to competition are also ineffective, given that importers can already today choose where they release goods for free circulation and thus avoid countries imposing the services of their nationals for customs representation. Stakeholders (other than the customs agents concerned) expressed the opinion that these restrictions must be abandoned in order to reduce compliance costs and increase the level of standardisation (see Annex 2).

Centralized customs clearance

An Authorized Economic Operator (AEO) will be able to declare electronically goods for import with a set of core data and have the goods released for free circulation or another procedure at the customs office of entry on the basis of such data, without the need to move the goods to the place where the AEO is established. He will subsequently lodge, within regular periods, complete customs declarations electronically to the customs office responsible for the place where he is established (alternatively, where both customs and the operator agree, he can grant this customs office access to the required declaration data and documents in his electronic system).

Operators will also be able to declare goods electronically for import, on a consignment by consignment basis, always to the customs office at the place where they are established,

²² Article 5 (2) (2) CC. Some Member States such as Greece, Spain, Portugal, Italy and Poland still restrict (at various degrees) the right to make customs declarations to customs agents

irrespective of the Member State through which the goods will be brought into the customs territory of the Community.

Processing of the declaration and the payment of any debt will take place at the office of import. Information on risks can be exchanged electronically between the customs offices concerned. Any physical control of the goods, where necessary, will take place, and release will be granted, at the office of entry.

Under this arrangement, the goods need not be moved to the customs office of import but can be delivered direct to the customer, importer or point of sale, including in another Member State. This will allow companies doing business in more than one Member State to conduct it with the customs office responsible for the place where they are established²³.

The concept of centralized clearance will remove the need to use a transit procedure before the customs procedure actually envisaged. In such cases, the trader can avoid incurring the costs of one customs transaction; in other cases the level of cost for each transaction can be reduced.

The centralized clearance concept allows for a sharing of responsibilities between border and inland customs offices. This will save costs for administrations and free resources for additional tasks in accordance with the new role of customs.

Reduced risk of fraud

Streamlining, simplification and automation of customs procedures will increase transparency.

A common risk management framework and automated transparent processes will have deterrent effect on duty evasion and corruption. The example of the changes to the transit procedures has shown how the use of efficient IT tools, applied throughout the Community, has contributed to a reduction of fraud and irregularities in the area concerned. Similar effects are to be expected if all other customs procedures are computerised according to common criteria.

Authorized Economic Operators will be able to benefit from further simplifications and reduced levels of controls.

Electronic exchange of data will allow for a more efficient risk management. According to the modernized Customs Code, electronic declarations will be mandatory. This is currently only the case for the New Computerized Transit System (NCTS) and, following the entry into force of the security related amendment of the Customs Code, summary declarations. The electronic handling of customs declarations is more secure than the handling of paper declarations²⁴. The more widespread use of automated systems will reduce the risk of fraud.

²³ However, where the point of sale is in another Member State, arrangements must be in place for the payment of excise duty and VAT in that Member State and possibly for a redistribution of the 25% national share of own resources. A pilot project under the Customs 2007 programme is currently working out solutions for such issues.

²⁴ See Transit Computerisation Project System Specification Phase/Basic Principles of NCTS, 4 July 1996, No 3.20.

Further trade facilitation

Trade facilitation initiatives benefit both the business community and governments. The competitiveness of the business community is enhanced due to a reduction of delays and costs which is achieved thanks to a more predictable and efficient movement of goods across EU borders. National administrations are able to utilize modern procedures to enhance controls, ensure the correct collection of revenues, and contribute to economic growth through increased trade and foreign investment in the EU.

Automated customs systems, costs and benefits

The objective of making better use of ICT for increasing competitiveness is shared by both traders and national administrations. Member States and the Commission have committed themselves to offering electronic government services to businesses and citizens.

In the future, electronic declarations and the electronic submission of supporting documentation ought to be the rule whereas paper-based declarations will be the exception. However, one of the peculiarities of customs law in a customs union is that customs procedures often end in another Member State than that where they started. It is therefore not sufficient that electronic processing of customs declarations is possible in the Member State where a procedure starts or ends. The automated customs systems of the Member States and the Commission need to be interoperable so that information can be exchanged between them. Traders need electronic access to these systems to communicate and carry out their business with customs. This will allow for a seamless flow of data.

Customs administrations will be able to receive and exchange electronic data instead of paper declarations and accompanying documents. This will lead to savings in terms of time and money both for traders and customs administrations. The availability of electronic information will also facilitate the introduction of the Single Window and the One-Stop-Shop.

Every reform creates transition costs; if the computerised procedures of the Member States are to be harmonized, such transition costs are inevitable. The costs shall be kept to the minimum necessary. Consequently, the only procedure which has already been computerised at Community level, namely NCTS, should, in principle, not be changed and other procedures (e.g. exportation) should build on the NCTS infrastructure and the experience gained. This will allow to the re-use of existing data and systems.

Economic operators will, in particular, benefit because of being able to

- use data from one procedure or process for another instead of having to duplicate this information;
- lodge electronic customs declarations in any Member State;
- register only once for all customs transactions throughout the Community.

Cost estimates

Information received from the Member States does not at this stage differentiate between the various options for electronic customs. However, the information collected for the NCTS costs, the estimates received for the implementation of pan-European customs systems and some of their components provide a basis on which the Member States' costs for Options 1, 2

and 3 can be inferred as shown in the table below²⁵. Cost estimates received from the Member States vary quite significantly. Indeed, some Member States rely on outsourcing which is easy to quantify, while others draw on internal resources which are more difficult to track from a budgetary perspective. Some countries have a combination of both elements.

Costs estimates for: (Million €)	2006	2007	2008	2009	2010	2011	2012	2013
Option 1 additional costs								
Commission	21,1	21,1	24,0	23,5	22,2	21,6	20,5	20,5
Member States	28,9	46,2	43,3	37,6	32,8	32,9	32,9	32,9
Total	50,0	67,3	67,3	61,1	55,0	54,5	53,4	53,4
Option 2 additional costs (on top of Option 1)								
Commission	2,8	2,8	6,0	8,5	7,0	6,5	6,5	6,5
Member States	13,5	28,9	46,2	43,4	37,7	32,9	32,9	32,9
Total	16,3	31,7	52,2	51,9	44,7	39,4	39,4	39,4
Option 3 additional costs (on top of Options 1 & 2)								
Commission	2,8	3,4	7,0	8,3	9,8	9,1	9,0	9,0
Member States	13,5	28,9	46,2	43,4	37,7	32,9	32,9	32,9
Total	16,3	32,3	53,2	51,7	47,5	42,0	41,9	41,9

From the benefit side, Option 3 will provide the greatest savings to traders as it will streamline the customs rules, provide for simplification and flexibility, offer central clearance and impose electronic declarations. Some traders and economists²⁶ suggest that the savings to be expected are around 50% of the transaction costs if not even higher leading eventually to a saving of 2.5 Million €/year. However, it will take some years before these returns materialise, tempered down by the expected long roll out of the Single Window.

Financial benefits to be made from streamlined automated customs procedures are difficult to estimate and traders as well as national officials are prudent with making available information. Often the compensating effect of new burdens (e.g. security compliance) is mentioned. Achieving only half of the objectives or having a very long transition period have been mentioned as important reasons for not achieving considerable gains. Especially the

²⁵ Under Option 1 the Commission and Member States have committed for 2005 investments for a total of 34,3 Million € for the implementation of already approved legislation (NCTS, customs tariff, security amendment of the Customs Code.

²⁶ From the discussions with Prof Verwaal it can be noted that in terms of customs related transaction costs, in the framework of the current research, the following elements are most important: the frequency of customs declarations made, the availability of an authorisation for simplified procedures and electronic declarations. This is represented as follows: 'Log Customs related transaction costs = a (constant) + $a1$ (Log Frequency) + $a2$ (Licence) + $a3$ EDI with customs'. Estimated coefficients are $a1=-0.5654$, $a2=+0.4377$, $a3=-0.8469$.

introduction of a Single Window in each Member State might be difficult to achieve in synchronisation with the other elements.

Interviews indicate however, the following trend: if the operation is completed successfully within a reasonable period (start up of systems in about 12 month time []), considerable gains can be achieved (up to 50 % of current compliance costs).

The transaction costs discussed above include the write-off of the IT investments made by traders in order to take advantage of the new electronic customs systems.

Under this option, the work of achieving electronic customs is dramatically simplified and reduced to the challenge of integrating and adapting national systems in order to enable interoperability between Member States' customs clearance systems. Electronic customs under this option is mainly 'efficient customs', with an in depth re-engineering of the customs processes into a coherent business package. This is a low-risk strategy from an IT perspective, since the initiation of any significant action and investment, either at Community or at national level, is based on a solid legal basis.

5.4.2. Social impact

Improved safety and security

In addition to the improvements of safety and security introduced as a result of the recent amendment of the Customs Code (see point 4.2.2.), the modernized Customs Code would abolish parallel paper-based customs procedures. Consequently, automatic risk management systems can be used more efficiently, given that electronic data will be available for almost all import and export transactions. This will enhance safety and security by allowing a better detection of consignments that may pose a threat.

Protection of cultural heritage, public morality and policy

This option facilitates the exchange of information relevant for the protection of the cultural heritage, public morality or other public policy objectives, through the use of IT systems that are interconnected between all the agencies involved. This will provide for more efficient controls by allowing a better detection of the consignments concerned.

Job losses and reallocation of resources

The withdrawal of national restrictions on customs agents creates certain risks for those customs agents currently protected by such restrictions. Although requests were made by the Commission services, the federations concerned have not been able to calculate the number of job losses which would result from the liberalisation of customs representation in the countries concerned (notably Greece, Italy, Poland, Portugal, and Spain). However, such potential losses would be more limited than when the Internal Market abolished internal borders in 1993. In any case, the effect of such losses should be viewed against the backdrop of savings in costs and the additional business opportunities which will be brought about through liberalisation and trade facilitation.

In fact, the emergence of the Internet and the possibility to lodge a customs declaration on-line, from a place different from the one where the goods are situated, make certain aspects of the profession obsolete and, therefore, requires a redefinition of the profile of the customs agent.

According to this new profile, customs agents can provide more 'value added services', similar to a 'consultancy' function, for importers/exporters and, in particular, SMEs. In certain cases customs agents will fit the 'authorised economic operator' profile, thereby benefiting from security and safety facilitations and/or customs simplifications, and being able to extend these benefits to their clients. New professional opportunities will also arise, as the status of the 'authorised economic operator' will be recognized in all 25 Member States. This opportunity will, however, require new professional standards and training for customs agents, in order to meet the new challenges.

As regards the administrations, the revised sharing of tasks between inland and border customs offices, in particular in the case of centralized clearance, will allow for a re-allocation of human resources. More efficient risk management and automated customs systems will also allow for a more effective performance of these tasks.

At the border, activities will be concentrated on the physical controls of goods primarily for safety and security purposes, selected on the basis of the result of the risk analysis, while the inland customs offices will perform the main tasks relating to customs procedures.

As a result, former border customs offices which, consequent to the enlargement of the EU, have become inland offices will be able to maintain jobs. Without centralized clearance, such posts would be lost.

As automation has already been widely introduced in Member States' customs clearance systems, the impact, under the new systems, on the present number of customs officials required will be marginal. The capability to handle ICT tools is already necessary, so the main impact of inter-operable customs systems will consist in the need to speak and understand other Community languages. It is not expected that the lack of such knowledge will lead to lay-offs; for new recruitments, however, this aspect should be taken into account.

5.4.3. Environmental impact

The use of centralized clearance will allow avoiding certain movements of goods or documents which are currently made only in order to comply with current customs legislation or in order to avoid more burdensome procedures. A reduction of such – from a business point of view unnecessary – movements would contribute to reducing pollution. A better control of the application of environmental restrictions (e.g. dangerous chemicals, endangered species) may result from more information being available in electronic form.

5.5. Option 4: Centralized management of certain aspects of the Customs Union in addition to a modernized Customs Code

During the consultation process and in seminars relating to the modernized Customs Code and electronic customs, numerous economic operators have suggested developing a “unique customs system”. Why not, when it comes to electronic customs clearance, be one customs administration rather than simply act as one customs administration? Why not centralize the IT management of the Customs Union on the basis of a modernized Customs Code?

The question must therefore be asked: if a substantial degree of change is necessary anyway, why not go one step further, directly to giving certain tasks, and in particular the IT aspects of the Customs Union, to a single EU-level administration with a common centralised IT environment?

Under this option, national customs administrations would continue implementing customs policy and control import and export goods, but on the basis of a centralized IT system, and possibly certain other areas (such as issuing tariff classification and origin rulings) being centralized. This choice would call for a feasibility study to assess the full impacts of such a fundamental organisational change in terms of legal basis, costs, required minimal degree of centralisation, complexity and timing. However, a preliminary evaluation of this option has led to the following results.

5.5.1. Economic impact

Economies of scale

Maintaining a single customs clearance system instead of 25 systems would lead to economies of scale, once such a system has been set up. These economies would materialise, however, only after 2013 due to the long period needed for implementing such a fundamental change (see graph on return on investment below).

Simplification through centralization

Operational complexity would be reduced to a major extent. Both administrations and economic operators would benefit from this. National processes and systems would not need to be harmonized as they would be taken over by a central automated system. Economic operators could conduct all their business with a single customs system.

Useless investments on national level, integration of national components

In the past years, all Member States have made large investments to develop and modernize national automated customs systems. A centralized approach, leading to the replacement of these systems by a Community customs system, would make such investments, at least with regard to the Community components, useless. Furthermore, as the need for national components will continue to exist, national and Community components would need to be integrated in some way.

Separation from national systems and clients

Under a centralized approach, national diversity would have to be neglected to a great extent. Particular features of national customs systems and links to other national authorities, due to legislation within national competence (e.g. VAT and excise), could not be fully taken into account. However, on importation and exportation, Community and national rules need to be applied alongside. All Member States have integrated both aspects in their customs clearance systems. This link will be broken if for customs a separate Community system exists. This may lead to a loss of efficiency with regard to the handling of national import or export rules.

A central system is more distant from the clients and less suitable for taking into account specific local needs. If risk management were performed only on the central level, the special knowledge of local customs officials would be lost.

Financial and human resources on Community level

This option would require substantial additional financial and human resources for the Commission. An alternative option would be the creation of an agency. Either solution would lead to much higher costs for the Community, in particular with regard to the implementation

and operation of a centralized automated customs system and the necessary infrastructure. Furthermore, the Community would have to recruit the necessary staff and provide them with extensive training, or have sufficient trained staff from the national administrations available. Apart from leading to high costs, such an approach would also be very time consuming and bear a high risk on investment

Requires a major political decision

Centralised management of the Customs Union implies a shift of policy and therefore requires a major political decision, which under the current circumstances is unlikely to be taken. However, in the current context there is discussion on possible EU management for some aspects of the legislation in relation to the creation of a customs agency (for issuing BTIs and BOIs).

Risk in case of system failure

Option 4 would entail a major risk in case of a system failure, as this would have a direct and major impact and threatening the functioning of the Customs Union as a whole.

Additional costs

The rough budget estimate made hereunder would need to be confirmed by a feasibility study if this option is to be taken under further consideration. This study would have to provide more reliable information in terms of costs, complexity and timing. The costs for Member States would mainly be in the area of writing off their national automated systems, setting up the national fallback/contingency systems, setting up systems for national import and export legislation, managing the transition period and providing training for the new centralised system. It is assumed that the costs for the Member States represent 80% of the Community costs.

Costs estimates for: (Million €)	2005	2006	2007	2008	2009	2010	2011	2012	2013
Option 1 additional costs									
Commission	20,8	21,1	21,1	24,0	23,5	22,2	21,6	20,5	20,5
Member States	13,5	28,9	46,2	43,3	37,6	32,8	32,9	32,9	32,9
Total	34,3	50,0	67,3	67,3	61,1	55,0	54,5	53,4	53,4

Option 4 additional costs (on top of Option 1)	2006	2007	2008	2009	2010	2011	2012	2013
Commission	3,1	6,3	37,5	65,0	121,3	142,5	140,0	123,1
Member States	2,5	5,0	30,0	52,0	97,0	114,0	112,0	98,5
Total	5,6	11,3	67,5	117,0	218,3	256,5	252,0	221,6

In million €

The difference between Options 3 and 4 is mainly on the side of the public services (distributed versus centralised architecture, see next section) and should not have a major impact on the IT functionality and type of access offered to the trade. As Option 4 is a major integration and convergence venture, it is impossible to have it operational by 2009. However, the IT developments necessary under Option 1 must be implemented by 2009. Option 4 would therefore have to be combined with an amendment of the Customs Code, given also that it would not allow for special national rules.

However, the costs and benefits of Options 3 and 4 should be about equivalent for traders, as their costs are not dependent on whether the system is decentralised or centralised. However, the set up of Option 4 will require more time than Option 3 (major re-engineering of all Member States' and Commission systems and transition phase), delaying significantly (3 to 5 years) the provision of savings for traders.

Indeed, for the trading community it is not really relevant if they would connect to a centralised or to a decentralised (nationally operated) system, as long as the data requirements and the technical parameters for data exchange do not differ. However, from the side of the public authorities there is a fundamental difference, both under legal, and management and operational aspects.

5.5.2. Social impact

There is a major risk that a centralized management of the Customs Union would lead to job losses, mainly in Member States' customs administrations and in the area of national customs service providers. On the other hand, new business opportunities would arise for pan-European customs service and software providers, given a uniform IT environment.

5.5.3. Environmental impact

As for option 3.

5.6. How are subsidiarity and proportionality taken into account?

In the process of EU integration, certain areas of customs legislation have been left for implementation by Member States (see point 4.2.1).

Options 1 and 2 leave the existing margin for national legislation in the customs area. This is no longer in line with the requirements of the business and trade environment.

Option 3 strikes the right balance in terms of what should be harmonized at Community level and what is left to Member States. This option:

- creates the legal foundations for electronic customs clearance systems that are interoperable and accessible to traders throughout the EU,
- stipulates that the Community rules on decisions apply to the appeals procedure on the administrative level, leaving only the judicial procedure to national legislation,
- creates a framework for the harmonization of administrative and criminal penalties at Community level, and thus, for the time being, leaving sanctions involving the public prosecutor and the courts to national legislation, - ends national restrictions for services of customs representation in line with the principles of the Single Market and an

electronic environment, but lays the foundations for common standards of professional qualification,

- ends the empowerment for national special rules, but gives scope for facilitations to be introduced at Community level.

The cost of keeping in place a diversified system allowing for parallel electronic and paper-based procedures and special national rules is much higher than the transitional cost of replacing it by a simpler, more transparent and better managed system. Consequently, this option respects the principles of subsidiarity and proportionality.

Option 4 requires a major shift of responsibilities from the Member States to the Commission and is therefore neither proportionate to the objectives as described under point 2 (simplification, streamlining, facilitation, effectiveness, competitiveness, accessible and interoperable customs systems), nor does it respect the principle of subsidiarity.

5.7. Who is affected by the modernized Customs Code and the Decision on electronic customs?

5.7.1. Business

Business will benefit from simpler customs rules and simplifications for customs transactions, as well as from accessible and interoperable electronic customs systems. The changes envisaged will reduce compliance costs and allow for a seamless flow of information, involving exporters, importers, freight forwarders, carriers, customs agents and all border agencies. Customs service providers will be able to offer their services throughout the Community.

5.7.2. National customs administrations

Customs administrations can perform their tasks more effectively and efficiently, as they will be in a position to use modern interoperable technology and Community-wide automated risk analysis systems, rather than being tied down with unproductive paperwork when dealing with customs procedures (other than NCTS) taking place in more than one Member State.

5.7.3. Community citizens

Lower costs for business will most probably result in lower consumer prices. Furthermore, Community citizens will be protected in a more efficient and more effective manner. The risk of threats to public security, health and the environment will be minimized. New job opportunities will arise due to more economic growth, more international trade, and the streamlining of the supply chain.

6. OVERVIEW OF RESULTS

For **Option 1 (no changes of the Customs Code)**, due to the recently published security amendment of the Customs Code, there could be an increase of compliance costs by approximately 1 200 million € (which is likely to be reduced in part by some national ICT initiatives), plus an increase of investment of 50 to 60 Mio €/year for the Commission and the Member States to implement the necessary ICT infrastructure.

For **Option 2 (Decision on electronic customs only)**, the proposed computerisation remains within the existing legal framework and could decrease the compliance costs caused by the security amendment of the Customs Code by approximately 15%, the additional costs of this option being estimated around 40 to 50 Mio €/year [Not exactly reflected in the table for Option 2, depending on the year. Agreed, there are important differences from year to year. We refer to an average figure]. If the use of single access points is generalized, this would enable traders to submit declarations to the competent customs authorities via their existing interface, thus avoiding multiplication of investments in order to access the customs systems of different Member States. Information would be more easily accessible via common customs information portals. However, as electronic declarations would not be compulsory, paper-based declarations (apart from pre-arrival, pre-departure and transit declarations under NCTS) would still be made, thus undermining the effectiveness of electronic customs clearance and risk management systems.

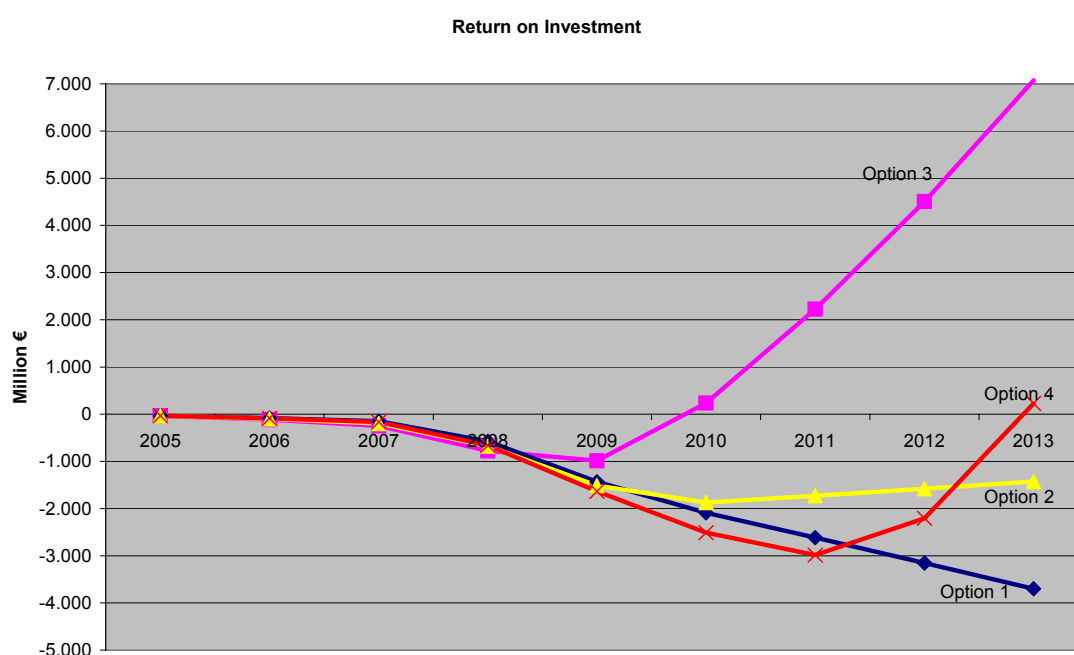
Under **Option 3 (in addition to the Decision under Option 2 a modernized Customs Code)**, the modernisation, facilitation, streamlining and a fully electronic environment for customs and trade can be achieved. Companies could use under certain conditions the centralized clearance procedure, which provides them with the benefit of a single customs counterpart in the EU. The costs for such a solution would be higher than under the previous two options (additional investment of 40 to 50 million € per year until 2013 for the Commission and Member States together Benefits, however, could be as high as 2 500 million € per year once the system is fully operational (at the earliest in 2009). The break even point of this option will be reached in 2010. A better organised customs environment, and therefore lower costs related to customs clearance, would have sufficient impact on economic operators (especially SME), so that their engagement in international trade (import and/or export) could increase with consequential benefits to the EU and world economy.

Option 4 (in addition to a modernized Customs Code a centralised management of certain aspects of the Customs Union, in particular a single integrated information technology system) would also achieve the objectives described above, but such an approach would entail a fundamental shift of operational responsibility from the Member States to the Commission. This goes against the principles of proportionality and subsidiarity as well as the constraints of the Community budget.

In terms of ICT systems, the implementation of this approach would take more time and the costs for the Commission and the Member States would increase up to over 200 million € per year in the period between 2009 and 2013. This solution would mean that ICT investments made by Member States would become partially superfluous. In terms of benefits to traders the situation is comparable to Option 3, but the financial gains accrue at a later moment due to the higher investments and the start of operations at a later date (2011 instead of 2009). Consequently, the break even point would only be reached in 2013 instead of 2010 as for Option 3. This option could contribute significantly to the creation of additional international trade, however at a later date than Option 3.

6.1. Return on investment for all options

The following graph²⁷ simulates the return on investment for each of the four options²⁸. The return on investment is calculated by deducting the costs incurred by the Member States, the Commission and – insofar as the security amendment of the Customs Code is concerned – the traders from the savings generated for traders in the EU. Consequently, where investments (= disbursements) made by all involved (Commission, Member States and traders) are greater than the savings for traders, this is shown as a negative trend, whereas a positive trend is shown where the benefits for traders outweigh the investments made by all stakeholders. As this graph is based on cost and benefit estimates, it is to be considered as an indication of trends and not as a calculation of actual costs and benefits that will be incurred.



The graph suggests that Option 3 will deliver a positive return on investment from 2010 onwards, while one will have to wait until 2013 to reach the break even point for Option 4. Options 1 and 2 do not provide a break even point in an adequate time frame. Therefore, from this perspective, Option 3 is clearly to be preferred.

6.2. Increase of international trade

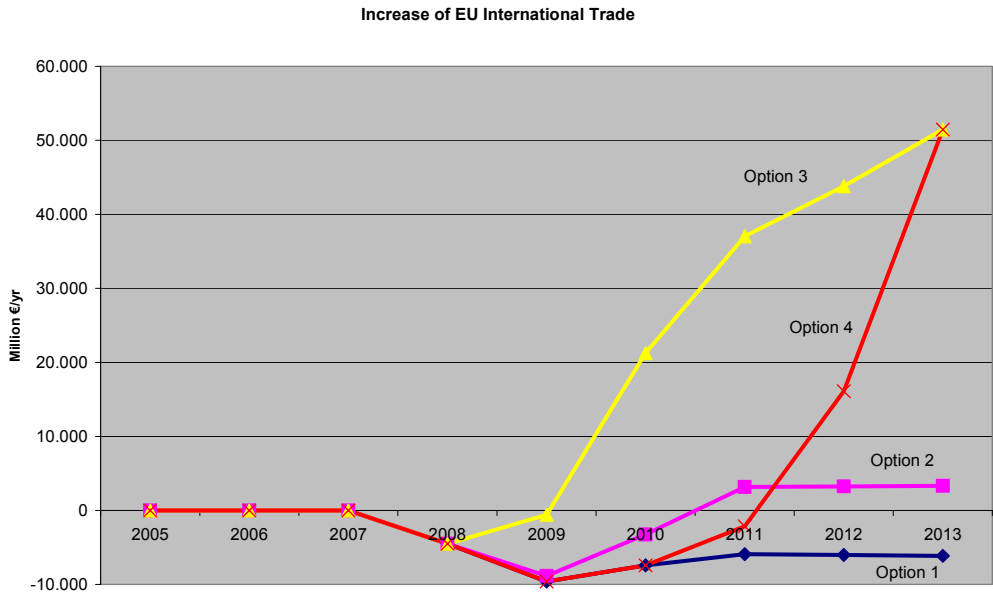
The following graph relates to international trade intensity, an indicator for growing participation in international trade, which is also determined by a number of elements one of which are the customs related transaction costs²⁹. The figure below shows, for each option, the impact of customs compliance costs on international trade of the EU. Lower costs and streamlining of customs procedures will increase international trade as new companies (often

²⁷ Customs-related Transaction Costs, Firm Size and International Trade Intensity, E. Verwaal and B. Donkers, Rotterdam, Small business economics 21, p. 257 – 271, 2003

²⁸ Option 1, 2 (actually 1+2), 3 (actually 1+2+3), 4 (actually 1+4)

²⁹ According Prof Verwaal, International Trade Intensity (value of international trade transaction/total sales) = 0,702-0,027 ln (customs related transaction costs) + other non relevant ln factors.

small and medium-sized companies) will get involved in exports or imports and companies already doing such business will increase their imports or exports.



while the other options will eventually increase it. Option 3 leads to an increase at the earliest moment, eventually delivering 50 billion €/year of additional international trade (+ 2%). Option 4 such an increase at a later time, lagging by approximately 100 billion € behind Option 3. It must be highlighted that the graph shows trends based on available information and not the actual impact of a reduction of customs compliance costs on international trade.

Again, these trends confirm that Option 3 is likely to deliver the best value under all options assessed.

6.3. Qualitative assessment of the different options

The following table summarizes the assessment of the different options made in Section 4. The overall result supports the findings made with regard to the return on investment and the potential increase of international trade due to lower customs compliance costs.

Expected impacts	Option 1	Option 2	Option 3	Option 4
Long term cost saving for economic operators and customs authorities through reduced legislative complexity (better Regulation)	--	-	++	++
Long term cost saving for economic operators and customs authorities due to the abolition of national empowerments and a stronger management of the Customs Union	--	--	++	++
Short term costs of introducing new	++	+	--	--

electronic customs systems			[Why is this negative since costs are even higher than under Options 1 and 2 ? The short term costs are higher]	
Long term cost saving for economic operators through customs information portals	-	+	+	+
Long term cost saving for economic operators and customs authorities through electronic instead of paper-based processes (e-Government)	-	+	++	++
Long term cost saving for economic operators by being able to lodge declarations to any Member State via a single access point	--	++	++	++
Long term cost saving for economic operators through centralized clearance	--	-	++	++
Long term cost saving for economic operators through a Single Window/ One Stop Shop	--	+	++	++
No additional human and financial resources on Community level	++	+	-	--
No high risk for IT investments	++	+	+	--
No useless investments on national level	++	+	+	--
Reduced risk of fraud	+	+	++	++
Enhanced safety and security	+	+	++	++
No job losses in national customs administrations	+	+	+	--

No job losses among economic operators	-	+	++	++
Better protection of public health and the environment	+	+	++	++
Subsidiarity, proportionality	++	++	++	--

++ much better suited

+ better suited

= no difference

- less suited

--- much less suited

Option 3 comes out as the option providing the greatest benefit, taking into account the costs incurred under each option.

7. HOW TO MONITOR AND EVALUATE THE RESULTS AND IMPACT?

7.1. How will the modernized Customs Code and the Decision on electronic customs be implemented?

The modernized Customs Code will be implemented primarily through Community implementing provisions. National implementation will cover, in particular,

- the location of free zones and customs offices, and their opening hours,
- the appeals procedure before national courts.

The Commission services will inform the public about the Community draft implementing provisions via the Europa website and will discuss them with the European trade federations.

The Decision on electronic customs will be mainly implemented through projects financed under the Customs 2007 programme and its successor programme, insofar as the Community components are concerned. National customs clearance systems and the Single Window/One-Stop-Shop will have to be adapted or introduced by the Member States.

7.2. How will the results and impact be monitored?

Once an obligation to lodge customs declarations electronically has been created at Community level, the availability of electronic data on imports and exports will rise. The Commission services will monitor the take-up of electronic declarations and the state of interoperability between national ICT systems via the management instruments and working groups under the Customs 2007 and its successor programme. The implementation of the Decision on electronic customs will be monitored by the Customs Policy Group and the Electronic Customs Group instituted under the Customs 2007 programme.

Once the modernized Customs Code and its implementing provisions have been adopted, the objectives of the "better Regulation" initiative will have been fulfilled, provided the result corresponds to the requirements of this initiative, so that no further monitoring will be necessary.

The task of reducing the risk of fraud and tax evasion is a permanent one, and the Commission services will use all the channels available to it (information from administrations, traders, etc.) in order to be able to fine-tune the application of the Regulation, through changes of the implementing provisions.

8. THE STAKEHOLDER CONSULTATION

8.1. The consultation process

Stakeholder consultation took place during seminars in Toledo, Vuokatti, Budapest, Wroclaw, Vilnius, and Helsinki (see summary in Annex 3). A special seminar devoted to issues relating to customs agents was organised in Warsaw (2004). Furthermore, the modernized Customs Code and electronic customs were regularly discussed in the Trade Contact Group (composed of major European federations representing traders, freight forwarders, carriers, customs agents), and Commission representatives presented their ideas to and discussed with members of European trade federations, such as ACE, AMCHAM, CLECAT, Eurocommerce, FTA, UNICE. During the summer 2004 a draft of the modernized Customs Code was put on the Europa website and more than 30 submissions were made (see summary in Annex 1). This led to a revision of the draft modernized Customs Code (version No 4) on which a further internet consultation was performed during December 2004 and January 2005, through a questionnaire (see summary in Annex 2).

8.2. Result of the consultation with regard to the three first options

Comments received from traders during the consultation process show that they largely agree that Option 3 provides most benefits to them (Option 4 has been added following comments made by some traders). They expressed concerns mainly in relation to the recently adopted security related amendment of the Customs Code which introduces pre-arrival and pre-departure declarations. As this specific issue is already dealt with under the existing Customs Code, it is not a matter that needs to be dealt with as such in this impact assessment (the costs of implementing the necessary IT systems have, however, been taken into account for the calculation of the return on investment). Most traders reacted favourably to the modernization of the Customs Code and the promotion of accessible and interoperable customs clearance systems, as well as the Single Window/One-Stop-Shop concept.

Economic operators (apart from some customs agents in countries where restrictions for nationals from other Member States are applied) do not want to keep the status quo (Option 1), although not everybody is satisfied with all of the proposed changes of the Customs Code. Furthermore, they believe that is not sufficient to computerize the procedures based on the existing legislation, even if Member States' customs clearance systems are made interoperable (Option 2). They therefore expressed **a clear preference for combining progress on the IT side with streamlining customs legislation** (Option 3). The same position is taken by most customs administrations. Differences of opinion exist only in relation to certain details of the proposal for a modernized Customs Code (see Annexes 1 - 3).

9. CONCLUSION

Considering the impact assessment made above, and in the interest of promoting competitiveness and growth, as well as enhancing the fight against fraud the Commission proposes to modernize the Customs Code by:

- making electronic declarations and interoperability between Member States customs clearance systems the rule,
- streamlining customs procedures and processes and other customs rules,
- creating a framework for harmonized administrative and criminal penalties,
- fostering standard rules and practices within the Single Market.

In order to support the introduction of pan-European electronic customs systems and the Single Window/One-Stop-Shop at the operational level, the Commission proposes that the Parliament and the Council adopt a Decision setting out the responsibilities of all stakeholders and the milestones to be achieved.