Economic Competitiveness and Border Efficiency through

Simplified Processing of Low-value Shipments

A Position Paper by the Global Express Association (GEA)[1]

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1. Introduction

Trade barriers hurt job creation and drive up costs for companies and consumers. A recent study by the Organization for Economic Cooperation and Development (OECD)[2] suggests that improved trade facilitation in developing nations would mean a 15% reduction in the cost of trade.

According to the World Economic Forum's *Enabling Trade Report 2013*, even partial steps toward global best practice will have a significant positive impact. "If all countries reduced supply chain barriers to a level that was only 50% of the global best practice, global GDP could increase by 4.7% and world trade by 14.5%, far outweighing the benefits from the elimination of all import tariffs. In comparison, completely eliminating tariffs could increase global GDP by 0.7% and world trade by 10.1%."[3]

One of the most prevalent and burdensome global trade barriers is the formality of declaring, classifying, valuing and risk assessing low value consignments at the border. In the vast majority of cases they are assessed as low risk. Additionally, in many cases the cost to Governments for processing low value shipments is greater than the revenue collected by the customs administrations. For Governments that means that the additional revenue is more than offset by the increase in costs. This is why de minimis regimes were introduced in the Revised Kyoto Convention and also the WTO Trade Facilitation Agreement to establish a reasonable threshold, below which duties and taxes would not be collected and for which less information would be required, focusing merely on risk assessment and admissibility. This of course does not take account of the costs to businesses and ultimately the economy at large.

A number of recent economic studies have demonstrated the positive economic impact of *de minimis* regimes. A study conducted among APEC economies concluded that establishing a baseline *de minimis* threshold of USD 200 could lead to almost USD 12 bn[4] in net economic benefits. A study conducted for the United States concluded that raising the *de minimis* from the current USD 200 to USD 800 would lead to net gains of USD 17 million per annum[5]. And a recent study focusing on EU member states concluded that the *de minimis* for VAT should be raised to at least 80 EUR from the

[1] The Global Express Association is the trade association of the global express carriers: DHL Express, FedEx Express, TNT and UPS.
[2] Moïsé, E. and S. Sorescu (2013), "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade", OECD Trade Policy Papers, No. 144, OECD Publishing. http://dx.doi.org/10.1787/5k4bw6kg6ws2-en
[3] Enabling Trade Valuing Growth Opportunities, WEF, 2013
[4] De Minimis Thresholds in APEC, IST Global and Canberra University, September 2012
[5] Logistics Reform for Low Value Shipments, PB 11-7, Peterson Institute, June 2011

current 22 EUR in order for the VAT revenue collected to exceed the total cost of collection faced by Customs/tax administrations and the private sector.[6]

In many countries, however, the growth of e-commerce has led to a debate over concerns of losses of Customs revenue, in particular VAT/GST revenue, if de minimis thresholds were maintained at their current levels. These discussions are focused predominantly on the amount of revenue collected by Customs and less on the cost involved for the industry as well as the administration.

Beyond the challenges already mentioned in this paper, the domestic retail industry in turn feel they are being treated unfairly as their sales are subject to VAT or GST without any *de minimis* threshold.

As a result, instead of improving declaration and risk assessment systems or collaborating with the express delivery industry or other stakeholders, Governments have started to raise barriers for low-value shipments, in particular by reducing or eliminating *de minimis* thresholds for VAT/GST.

Governments that have implemented electronic customs clearance systems argue that their cost of collection has decreased through the use of IT and the processing of electronic data instead of paper. However, such "improvements" are not supported by changes in the way that taxes are collected or the way in which shipments are processed. Taxes on low value shipments, which in some countries can be as low as $2, are still collected on a transactional basis, that is, for each import, whereas they are collected on a periodic basis (say, quarterly) from traditional domestic retailers. Similarly, electronic declarations for low value imports require levels of detail that go far beyond those collected by traditional retailers on domestic sales.

The express industry as well as the industry in general has still to collect, compile and transmit all the relevant data from various stakeholders and to manage all the supporting paperwork such as certificates of origin, permits, authorizations, etc., which Customs may not require to be submitted routinely, but require to be readily available at the trader's premise for inspection and audit, often for a very long period of time. In addition, in many countries customs clearance is still done manually or the electronic submission of documents has to be duplicated with hard copies.

2. Suggested Improvements

The express delivery industry would like to propose a combination of simplified processing of low-value shipments with smarter ways of collecting duties and taxes. This would allow countries to facilitate the movement of low-value shipments while safeguarding revenue collection and community protection interests.

A Smarter Collection Model

The Organization for Economic Cooperation and Development (OECD) is developing new ways for VAT/GST collection on imports. Two collection models are under consideration, the *vendor collection model* and the *intermediary collection model*. The Global Express industry supports these discussions and would favour a combination of both models as described below.

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[6] The EU provides for a common EU-wide de minimis for Customs duties of 150 Euro.

Under the proposed *combined collection model*, the obligation and liability for the collection and payment of duties and taxes on the import of low-value consignments would be primarily on the non-resident vendor. Similar to the "vendor collection model", non-resident vendors would be required to register in the importing country and would remain liable to duties and taxes and would make duty/tax payment to the importing country on a periodic basis. Depending on their size, non-resident vendors would choose whether to interact with the Customs/tax authorities in the importing country directly or through an intermediary, such as an express delivery company. In such a scenario where the non-resident vendor has chosen to use an intermediary, the intermediary would assume duty/tax liability and complete formalities on the vendor's behalf, including payment of duties and taxes, which is similar to the "intermediary collection model".

Non-resident vendors should receive incentives in order to seek registration in the destination country rather than making this a regulatory requirement by default. One of the key incentives should be the fast-track processing and immediate release of consignments of vendors who comply with the duty and tax regime. Such a fast-track process would require the implementation of alternative and secure methods to identify consignments for which duties and taxes have already been accounted for by the vendor. These methods may include the use of bar codes and unique shipment identifiers such as those applied by the express delivery industry.

A Simplified Process

In addition to the collection model proposed above, the Global Express Association suggests the following measures to simplify the processing of low value shipments:

- A global *de minimis* value level should be set at USD 200 (or 133 SDR), below which no Customs duties and taxes would be collected. Internal taxes such as VAT and GST should only be excluded from the de minimis regime where simplified alternative collection models and rate structures are available;
- Thresholds for simplified declarations as recommended in the WCO Immediate Release Guidelines should be set for the four categories of shipments (documents, low-value non-dutiable, low-value dutiable, others). Consolidated declarations based on manifest data should be the practice for categories 1 (documents) and 2 (low-value non-dutiable);
- Better use of pre-arrival risk management based selectivity to address revenue, safety and security concerns, for example, through closer collaboration with express carriers to improve targeting and to allow for immediate release of the shipment;
- Use of 24/7 e-Customs solutions to completely remove paper and any other forms of manual processing from the clearance process, ideally through a single window,
- Simplified trader registration and origin certification;
- Provision of equal and fair border treatment to public and private delivery service providers.

3. Expected Outcome

- The proposed *combined collection model* would establish a **level-playing field** for international and domestic transactions;

- The proposed *combined collection model* would **support e-commerce** and economic development as well as **generate government revenue**;
- The proposed *combined collection model* would offer a solution for SME's whose volumes do not justify the cost of registration and submission of country specific tax declarations.
- *The simplified process* **does not compromise safety and security** as carriers provide manifests and key data elements for risk assessment and security screening regardless of the value of the shipment.
- *The simplified process* **creates customs efficiencies** that allow a greater **focus on higher risk shipments**.
- *The simplified process* does not mean licensable/controlled goods are exempt from non-tariff requirements.
- *The simplified process* provides **equal benefit** to small, medium, and large exporters and importers.
- *The simplified process* provides for the timely import of parts and components –more than half of today's world manufactured imports are intermediate goods[7]–for production needs in order to generate timely exports.
- *The simplified process* brings B2C shipping level exemptions in line with exemptions for personal travel in many markets.
- *The simplified process* would allow a **greater focus on commercial compliance** issues such as **Intellectual Property Rights**.

[7] Koen De Backer and Sébastien Miroudot (2012), Mapping Global Value Chains", OECD Working Paper of the Trade Committee, http://www.oecd.org/dac/aft/MappingGlobalValueChains_web_usb.pdf