Cross-border E-commerce – Engine for Growth

Suggestions for Enabling Growth

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

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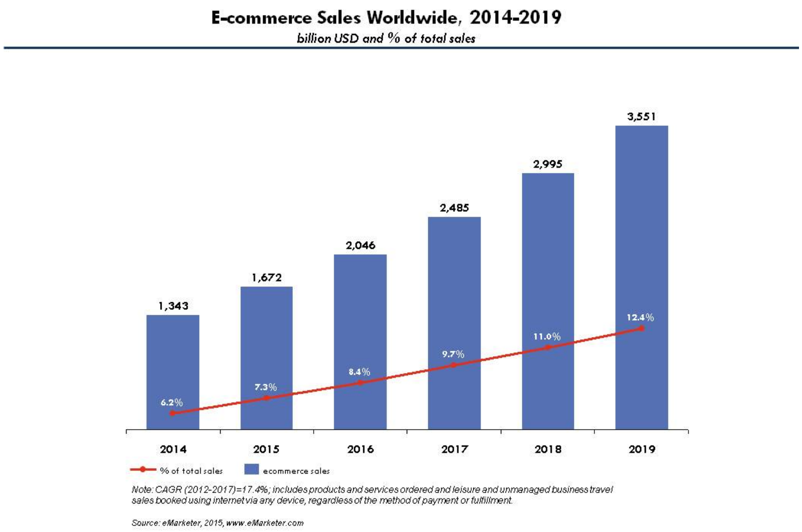
1. Introduction

E-commerce — broadly defined as the use of the Internet as a platform for sales, sourcing, and exchange of market information — is playing an important role in supporting global economic growth. Latest market research data predicts that the share of e-commerce of total sales will reach 12.4% in 2019. The global e-commerce market is expected to reach US$ 2.0 trillion in 2016, up by 22.3 % from 2015. The economic changes brought by e-commerce have already led to the fact that the Asia Pacific region has become the dominant region in the global economy, growing faster than any other at a rate of 35.2% year on year, and with projected total online sales of $875 billion in 2015[2].



2. Coherent Government Policy

Governments around the world have recognized e-commerce as an engine of future economic growth, especially in supporting small and medium-sized enterprises (SMEs) internationalizing. However, Governments will need to adopt coherent policies in a number of important areas in order to stimulate the growth of e-commerce in their economies. The policy implications of e-commerce are no doubt complex but policy makers have a unique opportunity to embrace a different way of doing business and develop regulatory policies to grow e-commerce in a sustainable manner for their respective economies.

2.1. Trade

The growth of e-commerce brings more diversity into the international trading environment in terms of size of players, type and value of shipments and types of commodities traded online. The growth figures show a strong increase of e-commerce as well as traditional retail sales. However, because the share of e-commerce to overall traditional retail sales is growing, traditional domestic retailers raise concerns and encourage Governments to erect new barriers, in particular to cross-border e-commerce, despite the call of the World Trade Organization on

[1] The Global Express Association is the trade association of the global express carriers: DHL Express, FedEx Express, TNT and UPS.
[2] eMarketer, Jan 2015, www.emarketer.com

the leaders of the G20 Group of countries to deliver on their pledge to refrain from implementing new protectionist measures and to roll back existing trade-restrictive measures[3].

Trade in general, whether driven by e-commerce or conducted via long-standing trading practices, requires a fair, transparent and open environment to develop its full potential for the international as well as the domestic economy. A level-playing field should be the norm for all stakeholders, sellers, buyers, foreign, domestic, public and private logistics operators.

2.2. Economy

Governments and multinational companies were once the principal actors involved in cross-border trade, but today, digital technology enables even the smallest company or individual entrepreneur to be a "micro-multinational" that sells and sources products, services, and ideas across borders. Traditional business models are being challenged by the paradigm shift in commerce and consequent micro-scale activities ranging from micro-work to micropayments and micro-shipments.[4] The overall importance of SMEs for economic growth worldwide cannot be overstated. In the APEC economic area alone as communicated during the APEC SME Summit 2015[5], SMEs account for over 97% of all enterprises and employ over half of the workforce across APEC economies. They contribute 20-50% to the GDP and account for up to 35% of the direct exports.

According to the McKinsey Global Institute, more than 90 percent of eBay commercial sellers export to other countries, compared with an average of less than 25 percent of traditional small businesses. This opens new channels for local entrepreneurs but they are also suddenly confronted with a plethora of different rules and regulations in the countries where their customers are based. Thus, countries that want to stimulate growth for their SMEs should see global e-commerce as an extraordinary opportunity. SME wholesalers, retailers and manufacturers all benefit from e-commerce.

Complicated and outdated border clearance procedures are a challenge for all international trade, however they pose an even greater obstacle for small and medium size companies ("SMEs"). The streamlined digital world of e-commerce offers fast and simple solutions for e-tailers and their customers. However this model starts to break down when confronted with a customs clearance model based on outdated processes.

The high cost of determining import requirements and completing excessive paperwork hampers the growth in e-commerce. Retailers risk their reputations – and in the case of SMEs their very existence – with customs holds, late deliveries, or inefficient (or non-existent) return procedures — all of which are common in many regions. Retailers in particular are most concerned about the quality of fulfilling an order – the more important part of their interaction with their customers.

2.3. Customs and Taxation

For e-commerce to be successful, the cost associated with fulfilling an order must be reasonable in the eyes of the customer. The Organization for Economic Co-operation and Development (OECD) has estimated that customs and other border barriers can add a

[3] "WTO reports leveling of new G20 trade restrictions, but stockpile grows", WTO News 2 November 2015
[4] Global flows in a digital age: How trade, finance, people, and data connect the world economy, McKinsey Global Institute, April 2014
[5] APEC SME Summit 2015, www.apecsmesummit2015.com

premium of up to 24% to the price of goods sold[6]. Striving to simplify, standardise and harmonise customs procedures across the world would make trade more efficient and have a positive impact on costs.

There is a great opportunity to embrace the technologies applied in the e-commerce environment; also in the area of Customs and Taxation, and to develop and apply e-Customs solutions and e-Taxation solutions. Such solutions need to rely on the technology already available and move away from paper-based processing. Business partnerships as well as coordinated border management among government stakeholders, domestically as well as internationally will ensure that critical information for control and risk assessment purposes is being exchanged early in the supply chain and the release of legitimate shipments taking place at the earliest opportunity.

Governments have a legitimate interest in controlling their borders to prevent fraud, revenue leakage, IPR violations or other illicit trade. E-commerce presents new challenges and concerns for customs and revenue agencies, but e-commerce transactions are no more risky than other international transactions. They involve new participants in the global economy and require better ways to collect revenue and manage risk.

With the fast growing number of e-commerce shipments, the solution for an effective, efficient and sustainable control environment lies in account-based controls, risk assessment and revenue collection procedures. Governments are encouraged to learn from new duty/tax collection models such as the vendor collection model discussed by the OECD. This account-based revenue collection model is the same one that is applied to domestic transactions. It would therefore establish a level-playing field between international and domestic transactions.

Traditional transaction-based controls, as currently maintained by the vast majority of Customs administrations world-wide, have become a barrier that poses a threat to economic growth. Governments should maintain current facilitation models such as de-minimis thresholds for customs duties and taxes until better collection models, such as the "vendor collection model", can be introduced.

3. E-Commerce enabling Suggestions for Governments

While there are many regulatory challenges in B2C e-commerce trade, including important issues such as taxation and consumer protection, regulators should work with responsible suppliers to reduce existing impediments. The four express delivery companies represented by the Global Express Association (GEA) are committed to cooperate as trustworthy partners with Customs, taxation and other relevant stakeholders to develop solutions that will help to address e-commerce challenges and facilitate realization of the tremendous economic potential. The following are some of our suggestions on how e-commerce challenges can be addressed and opportunities enabled:

I. Collaborate with shippers, carriers and border agencies to assess the risks and opportunities presented by e-commerce and to design smart and effective policies that both secure and facilitate the growth of this increasingly important economic activity;

[6] Evdokia Moïse and Florian Le Bris (2013), "Trade Costs: What have we learned? A Synthesis Report", OECD Trade Policy Paper No. 150

II. Coordinate efforts by export and import countries, online platform providers and intermediaries such as the express industry to both raise awareness and facilitate compliance with revenue, safety and security obligations.

III. Refrain from erecting new barriers against e-commerce shipments, such as increasing inspection rates, requiring additional documentation like ID or passport data which many countries are doing or considering;

IV. Learn from new duty/tax collection models such as the vendor collection model as discussed by the OECD. This account-based revenue collection model is the same that is applied to domestic transactions. Therefore, it would establish a level-playing field between international and domestic transactions;

V. In the meantime, maintain commercially meaningful de minimis thresholds for all Customs and taxes, at a minimum in line with the provisions contained in the WTO Trade Facilitation Agreement;

VI. Develop e-Customs and e-taxation solutions that are paper-less, connect with all relevant stakeholders and use intelligence-led and risk-based selectivity and targeting to improve the identification and targeting of high-risk shipments;

VII. Allow fair competition among public and private delivery service providers that reduces transportation costs, increases quality of service and promotes the growth of e-commerce;

VIII. Allow consumers to make their own choices about where to shop. This will not only improve citizens' lives; it also lowers costs and drives efficiency throughout the economy.

IX. Consider negotiating multilateral or plurilateral trade rules to promote and facilitate e-commerce.