



Policies to Promote International MSME Trade: Tapping the Full Potential of Global E-commerce

A contribution from the Express Delivery Industry

Micro, small and medium-sized enterprises (MSMEs) can now reach foreign markets thanks to the Internet. This provides an unprecedented opportunity to increase cross-border trade and economic growth at a time when both are faltering. And yet it seems that the full potential of cross-border e-commerce remains somehow untapped. The causes are probably many and complex. The policy aspects of e-commerce are wide-ranging, and not always simple.

The Global Express Association¹ is pleased to contribute policy proposals based on the express delivery industry's experience and expertise. These proposals could help unlock the full potential of e-commerce whilst being fairly simple to implement. Of course, some of these ideas have already been shared independently, but our intent here is to bring together some of the recent proposals, in a way that can be simply and quickly implemented.

This paper is designed not to duplicate previously expressed ideas but to add support to a much broader policy agenda.

We focus on two issues that MSMEs (our customers) frequently identify as barriers to their cross-border activity: the complexity of border procedures and the cost of clearance and shipping. What follows is a package of suggestions on how to address them.

This is an initial proposal aimed at starting the debate. We consider it a living document and may add to it as the discussion progresses. Undoubtedly, technical details will have to be worked out.

Less complicated borders for small traders and low-value shipments: TFA Plus

MSMEs can now reach virtually any consumer in the world and yet they frequently face very complex import/export procedures. Such complexity hampers their ability to trade across borders as they often lack the knowledge and means to comply. Putting it frankly, it is simply too difficult and too expensive.

On the other hand, most shipments generated by e-commerce are **low-value shipments**. They are often subject to the same requirements as much larger, more valuable ones. In other words, in many countries border procedures hardly differ whether you are sending a small parcel or a container. The facilitation of low value shipments, whether outbound or inbound, could lower one of the primary barriers to MSME participation in international trade.

This is not a new idea. Back in 1997, the OECD organized a roundtable on these issues. Its then Deputy Secretary General noted that 'international parcel carriers and national customs authorities are experiencing an increase in the volume of imported small packages, potentially restraining their limited

¹ The Global Express Association (GEA) represents DHL Express, FedEx Express, TNT and UPS.



resources' and that countries 'should endeavor to ... streamline the clearance of low value parcels, particularly those from established, reputable merchants.'²

Almost twenty years on, despite the adoption of the Immediate Release Guidelines by the World Customs Organisation, fewer than 50 countries in the world - to the best of our knowledge³ - have enacted simplified entry thresholds. Of them, 6 apply such thresholds to postal shipments only, and 3 restrict them to 'personal' or 'non-commercial' shipments. Additionally there are no common thresholds: they range from 14 USD to 11,000 USD (the average being around 1,000 USD and the median around 500 USD).

We propose that a coordinated and clear policy in this area by a group of like-minded countries, where they all adopt the same threshold and apply the same requirements for low value shipment clearance, would make it easier for MSMEs to export their goods.

Importantly, the policy solutions we suggest would not create a special and differentiated treatment for a specific type of trader or mode of transport. Where a MSME ships consignments that exceed the thresholds suggested below, it would not benefit from this simplified clearance.

The following commitments could be scheduled as part of a multilateral or plurilateral initiative and should apply to inbound and outbound shipments. Alternatively a group of like-minded countries could simply schedule them as part of their commitments under the Trade Facilitation Agreement - call it a **TFA Plus** approach. After all, these proposals are in line with the TFA and based on provisions and guidelines provided by the World Customs Organization, in particular the Revised Kyoto Convention and the Immediate Release Guidelines. The objective is to have a group of like-minded countries implement existing international standards and best practices in a coordinated fashion.

Capacity building

Countries that accept TFA Plus commitments for low value shipments could have preferred access to trade-related capacity building programs, such as UNCTAD's e-Trade for All, and those of the Global Alliance for Trade Facilitation, the World Bank, the International Trade Center, the WTO Aid for Trade initiative as well as sovereign donor agency assistance. This assistance could also include capacity building programs for MSMEs looking to expand their business through e-commerce.

These TFA Plus commitments could be joined with other commitments to form a broader, yet focused, e-commerce initiative. They could include disciplines to:

- secure market access,
- offer national treatment for transport and logistics services,
- strengthen on-line trust and confidence, through new rules on cross border consumer protection, and
- introduce electronic payments and other e-commerce related services.

² OECD ref. DSTI/CP(99)5/FINAL, A Global Marketplace for Consumers: Simplifying Customs Clearance Procedures, Proceedings of an International Roundtable held at the OECD on 9 September 1997.

³ http://www.global-express.org/assets/files/Customs%20Committee/de-minimis/GEA-overview-on-de-minimis_April-2016.pdf



TFA Plus could include the following elements:

Categorization

In line with the WCO's Immediate Release Guidelines, low value shipments should be categorized according to the following objectively verifiable criteria:

1. **Correspondence and Documents.**
2. **Consignments below a duty/tax de minimis threshold** (based on invoice value, not including transport costs).
The GEA suggests that such a *de minimis* threshold should be aligned with the government's cost of collecting such taxes and duties, especially pending the development of smarter collection systems (see below) and set at no less than 200 USD⁴.
3. **Consignments below a formal declaration threshold.**

The GEA recommends that this be set at no less than 1,000 SDR (around 1,400 USD) - a threshold mentioned in the WCO's Immediate Release Guidelines. For efficiency's sake and to offer legal certainty, this figure should be harmonized.

Generally speaking, criteria such as "for personal use" should be avoided as classification of what is and isn't "for personal use" is often difficult to define and neither border agencies nor carriers can control this effectively.

Scope

The suggested procedures should be applied to the above-mentioned categories equally by all relevant border agencies to achieve a one-stop shop clearance of the shipment,

- provided that the goods are not prohibited or restricted;
- regardless of weight and size;
- regardless of the type of operator or carrier.

Pre-arrival Declaration

Declarations should be accepted by border agencies in electronic form prior to the arrival as soon as the information is available, and ideally be submitted only once to a single point (single window).

Supporting documents in electronic form

Supporting documents such as the invoice or any applicable permit or certificate should also be legally accepted by border agencies together with the declaration in electronic form, e.g. as a scan copy.

⁴ A study conducted among APEC economies (De Minimis Thresholds in APEC, IST Global and Canberra University, September 2012) came to the conclusion that establishing a baseline *de minimis* threshold of USD 200 was estimated to lead to almost USD 12 billion net economic benefits."



Original documents should only have to be made available on request and where a consignment is assessed as presenting a high risk.

Country of origin and value

The value declared by the shipper and the country of origin on the invoice would be sufficient and accepted for the calculation of taxes and duties.

Compliance

It is recognized that any process based on declared value is open to abuse. The GEA therefore recommends that the border agencies cooperate with industry partners such as the express delivery industry, and share information to help identify and minimise the risk of non-compliance whilst maximising the safety and security of the supply chain.

Documents required

For Category 1, the only information required for the immediate release/clearance of correspondence and documents should be the total weight of such correspondence and documents arriving in the same consignment. This information should be obtained from the operator on the cargo declaration or accompanying transport documents. Information about the sender and the receiver of the shipment may be included for risk assessment purposes.

For Category 2, immediate release should be granted on the basis of a consolidated declaration that can be a manifest, waybill, cargo declaration or an inventory of such items. Such documents should contain the necessary information for granting immediate release by border agencies.

For categories 1 and 2 border agencies should not request details relevant for duty assessment and liability such as the HS number, importer registration and power of attorney.

For Category 3, consignments should be granted immediate release with simultaneous or subsequent clearance either on the basis of a simplified goods declaration or on a consolidated declaration containing only minimum information required by border agencies. Duty and tax collection and payment should be periodically on an account basis as described in the following chapter.

An *indicative* list of the data required for the clearance of consignments of category 1 to 3 is attached as an **annex**.

Automated risk assessment

Border agencies should coordinate their risk assessment activities and conduct risk assessment immediately upon receipt of the pre-arrival information received from the operator. Risk assessment should be conducted using electronic systems to enable automated analysis and assessment.

Release and Clearance

All consignments assessed as low risk should not require manual confirmation by an officer and should be considered released either immediately upon arrival or after a specified time after arrival of the goods, the GEA recommends this be set at no more than 30 minutes.



Border agencies should provide a single pre-clearance notification to the carrier of all consignments considered medium or high risk and requiring a documentary or physical control. Such controls should be coordinated by all agencies concerned and take place at the same time.

For consignments in categories 1 and 2, release and clearance should take place simultaneously. For consignments in category 3, clearance may be accomplished after release of the goods is granted.

Return shipments

Return shipments should be released without a formal declaration required, provided the reference to the preceding outbound shipment and declaration can be provided so that both shipments can be reconciled.

Smarter collection of duties and taxes⁵

For category 3 shipments (ie. those above the duty/tax *de minimis* but under the formal declaration threshold) the adoption of smarter methods to collect duties and taxes would bolster these facilitation measures. Indeed, they are a subset of a facilitated entry policy for low value shipments⁶. The key would be to move collection away from the border and allow periodical payments⁷, rather than demand a payment for every transaction

Two main models are being considered, the so-called 'vendor' and 'intermediary' collection models. We propose to combine the two as follows.

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. Non-resident vendors who wish to participate in such a system would be required to register in the importing country and would make duty/tax payments to the importing country.

Non-resident registration processes for the purposes of VAT/GST collection should incentivize registration, rather than the contrary. They should

- be simple, transparent, without onerous documentation requirements and preferably on-line;
- entail liability for VAT/GST payment purposes alone, but not be linked to any other tax liabilities, nor require permanent establishment or onshore representation.

⁵ For further details, see GEA's paper on *Economic Competitiveness and Border Efficiency through Simplified Processing of Low-value Shipments*, available at www.global-express.org.

⁶ Such smarter collection systems should not apply to low value shipments only. As such, they would also support facilitated entry for big traders. However, they are essential to handle the increasing volumes generated by e-commerce and low value shipments.

⁷ Conceivably this would be similar to how a domestic retailer in the respective country reconciles and remits owed VAT or state/provincial sales tax to the government authority.



Depending on their size, non-resident vendors ought to be allowed to choose how to interact with the Customs/Tax Authorities in the importing country. They could do so either directly or through an intermediary. In the case of the latter, the intermediary would assume liability for GST/VAT and duties only and complete formalities on the vendor's behalf, including payment of duties and taxes. This would be a one-stop-shop for MSMEs and take away the administrative burden resulting from a requirement to register in over one hundred countries, just because their goods are in demand as a result of e-commerce.

Success for MSMEs relies on the trader producing a quality product which attracts demand from consumers. Having a good product supported by e-commerce increases the likelihood that an MSME will succeed. However, being confronted by massive bureaucratic requirements would lead to failure just as the entrepreneur starts to see success.

In addition,

- VAT/GST accounting, payment and other responsibilities for non-resident registrants should be as simple as possible;
- There should not be any additional burdens for customs clearance of these transactions.
- Tax and customs authorities should share data that make it possible to monitor and audit cross-border transactions.
- Penalties for non-compliance could be set together by the customs and tax authorities (e.g. revocation of deferred payment privileges).
- Fast procedures should be put in place, too, to refund excess duties and taxes.

Allowing for efficient cross-border logistics

For SMEs to be able to participate in global supply chains and sell on-line they need access to competitive and efficient transportation and logistics services. Low quality, expensive logistics is one of the primary reasons that developing countries, and their businesses, have difficulty competing for business around the world. It also increases prices for domestic consumers.

Countries that wish to improve their global competitiveness and empower their small businesses should adopt policies that encourage foreign investment and increased competition. The most effective means to achieve this is to remove market access barriers and ensure national treatment for all logistics providers. Additional commitments can be made to ensure independent and non-discriminatory regulation of the transport industry, including rules to prevent anti-competitive behaviour. Existing trade agreements and negotiations contain many examples of strong commitments in these areas.

Geneva, September 2016

Annex A

**INDICATIVE LIST OF DATA ELEMENTS FOR CONSIGNMENTS COVERED
UNDER CATEGORIES 1, 2, and 3**

Notes:

- (i) Border agencies, based on their national legislation and for purposes of risk assessment, may require fewer data elements than those listed for each of the Categories below.
- (ii) Border agencies should limit the data required to only such particulars that are deemed necessary to ensure compliance with relevant laws.

WCO ID	Name	Cat 1	Cat 2	Cat 3
173	Date and time of arrival at place of discharge	X	X	X
149	Conveyance reference number	X	X	X
L012	Place of discharge	X	X	X
085	First port of arrival, coded	X	X	X
R012	Carrier identification	X	X	X
R011	Carrier name	X	X	X
L010	Place of Loading, coded	X	X	X
146	Total number of packages of the entire declaration	X	X	X
131	Total Gross weight	X	X	X
159	Equipment identification number	X	X	X
T005	Means of transport identifier	X	X	X
D023	Transport document identifier	X	X	X
R031	Exporter name or R020 Consignor name		X	X
R037	Importer name or R014 Consignee name		X	X
R003	Agent name		X	X
009	Trader reference and/or Unique consignment reference number		X	X
103	Nature of transaction (whether trade samples/gifts etc.)		X	X
L024	Country whence consigned, coded		X	X
142	Shipping marks		X	X
121	Charges (transport/shipping costs)		X	X
137	Description of goods		X	X
144	Number of packages			X
108	Customs value			X
135	Currency, coded			X
126	Gross weight item level			X
063	Country of Origin, coded			X
R038	Importer, coded			X
145	Commodity classification			X
166	Customs procedure, coded	X	x	X
D016	Invoice number			X
D009	Additional document type, coded, and 9966 Additional document type and			x