



Productivity Commission consultation on Collection Models for GST on Low Value Imported Goods

Australia Post supplementary submission

1. Executive Summary

Australia Post does not support the Modernised Transporter Model proposed by Amazon. In Australia Post's opinion, the model:

- fails to recognise and take advantage of the existing relationship and information supply between the overseas vendor or offshore marketplace provider and the acquirer of the goods subject to the importation;
- fails to leverage fully the existing vendor payment systems which should be able to be modified to accommodate the collection of the GST;
- over-simplifies the Electronic Advance Data (EAD) implementation process and assumes that information collected through Universal Postal Union (UPU) channels is reliable when we do not have control over it, and is not able to be validated; and
- fails to recognise the cash flow funding gap between when tax is required to be remitted and the collection from overseas vendor through the UPU settlement processes.

The financial costs and business disruption to the postal and freight express providers if they were to be required to assume the burden of collecting GST would be both unfair and out of proportion to revenue raised.

In consideration of the Modernised Transporter Model proposed by Amazon, Australia Post notes that:

- the changes agreed at the (UPU Congress in 2016 for EAD implementation from 1 January 2018 will require all mail items containing goods to display an S10 barcode identifier. It is noted, however, that there is no requirement to exchange any EAD at this time. Further, there are no penalties for postal operators who do not barcode or transmit EAD;
- the UPU is currently progressing work on the EAD roadmap. Whilst this work will take some time, the objective is to agree a data exchange model that will apply to all postal operators in the future. Currently timeframes for implementation of EAD on all mail items is scheduled for 2023;
- data quality standards are yet to be agreed by the UPU. This work is being undertaken as part of the EAD roadmap;
- given that the work in the UPU will take some time, any implementation of the Amazon hybrid model would impose a heavy (and in our opinion, unachievable) burden on Australia Post to negotiate bi-lateral or multilateral arrangements with other postal operators to provide EAD within the timeframe proposed;

- the Customs Declaration System required to exchange data between border agencies and Australia Post is currently in the “idea” phase – it has not been implemented. It is not yet certain whether existing software will be able to accommodate Australia’s dual border control agencies – the Department of Immigration and Border Protection and the Department of Agriculture and Water Resources; and
- the burden of evidence would be on Australia Post or the freight provider to provide this information to the Australian Tax Office. Non-compliant items would need to be held or returned.

2. Data Exchange

Amazon’s Modernised Transporter Model over-optimistically relies on Australia Post’s ability to receive complete EAD at an item level, comprised of the information currently provided on a CN22/23 form (in the ITMATT format). It also relies on Australia Post having in place appropriate accounting and transport processes to receive and use this data for GST assessment – systems which are not currently in place, and which would require significant financial outlay by Australia Post.

Analysis of Australia Post’s July 2017 ITMATT data shows that we receive this data on approximately half of all inbound items not including untracked packets (i.e. those items under 2kg which make up a significant quantity of our inbound mail from key trading lanes and would typically contain goods that fall under a low value threshold). The variability of quality of the current ITMATT data received means that it is unlikely that 100% of this data, even on half of the items received, could be used to undertake an accurate GST assessment. We note that, the data quality and quantity is expected to improve over time, however this is likely to take several years, as postal operators progressively upgrade their systems.

Whilst some postal operators are capable of sending ITMATT data today, many countries in Group 1 and our key trading lanes are still not able to provide Australia Post with complete data to the extent which would allow any meaningful GST assessment to be undertaken. Further, where data is provided, it is often not available on all items or product types, making it extremely difficult for Australia Post to undertake an accurate and complete assessment of any GST payable across all or a significant number of items.

Attempting to use currently provided ITMATT data for inclusion in the Modernised Transporter Model as proposed by Amazon would still require Australia Post to undertake a costly manual process of identifying each item and determining its value for GST purposes. While using EAD to screen for security (and potentially for GST) on some lanes (for example the Australia/New Zealand Green lane trial) and for some products (those with tracking) is becoming more feasible, the Modernised Transporter Model remains difficult and very costly for Australia Post to implement, particularly in the timeframes outlined by Amazon. We note that the work in the UPU on EAD is still in its infancy and any changes which will result in more complete ITMATT data being supplied consistently on the majority of products are unlikely to be effective until at least 2023.

From 1 January 2018, all UPU member countries must attach an S10 barcode identifier on all items (including parcels covered by CN23 forms and packets that could be lodged on CN22 forms) containing goods. This obligation applies to all postal operators and was endorsed by UPU member countries at the 2016 Istanbul Congress. Despite this regulatory change, it is critically important to note that:

- there is no penalty that can be imposed (other than after costly and lengthy arbitration) for non-compliance by countries who refuse to barcode articles;

- we are advised by many UPU member countries, including some in key trading lanes and those in Group 1, that they will not comply with the requirement from 1 January 2018;
- no data is required to accompany the S10 barcode; all that is required is the application of an S10 barcode identifier, not the creation and transmission of ITMATT data; and
- Australia Post or the freight provider has no control over the quality of information provided to it nor will it be in a position to validate the correctness of such information. The information will be coming via the vendor or the intermediary platform in the first place anyway and it will come through to Australia Post or the freight provider whose ability to validate it is limited as they are not a party to the original transaction.

As such, it is highly unlikely that full data will be included on all items, or even from key trading lanes and Group 1 countries, from July 2018.

Notwithstanding the above, the UPU remains committed to progressing the work on EAD and using it for its primary purpose – ensuring the security of the transport chain. The UPU has published an EAD roadmap with an aggressive timeframe, although it should be noted that as work progresses these timeframes are being re-adjusted to meet the commercial and practical realities of global postal operators. Any decision requiring transmission of ITMATT for all items would not be made until after 2020, with implementation not feasible until at least 2023. Notably, these timeframes would be more likely to be met by only our key trading lanes and not all UPU countries, meaning a gap is always likely to exist.

As noted above, the ability for Australia Post to implement the Modernised Transporter Model in the foreseeable future will rely in part on the capture of item level EAD using the ITMATT format. The usable quality of this data for the significant majority of inbound items is not currently - or in the foreseeable future - feasible or realistic. As data quality and provisioning of this improves, using ITMATT data as an input for consideration of declared value may become tenable in future, however this step will do nothing to mitigate the other processing costs required, if Australia Post were to be responsible for GST collection. These costs represent significant additional expense for our business.

The real costs associated with interception, assessment, billing, transport, and holding articles pending customer action would be present whether the initial data presentation is manual or electronic (i.e. via EAD). As such, and in Australia Post's view, the Modernised Transporter Model is unfeasible, inefficient, would impose an unviable cost burden on us, and is unlikely to be reasonably implemented from July 2018.

3. Bilateral/Multilateral Agreements

AS noted, the work on, and implementation of, the exchange of Electronic Advance Data (EAD) in the UPU will take place over a period of several years after 1 July 2018. Accordingly, in order to implement Amazon's proposed Modernised Transporter Model by 1 July 2018, Australia Post would be required to negotiate a number of bilateral and multilateral agreements with other postal operators that, at a minimum, impose the following obligations:

- overseas postal operators must provide EAD which includes a description and the price of any items sent, which could be used by Australia Post to assess the GST liability; and
- overseas postal operators must collect the estimated GST amount from the supplier (as part of the costs of transport) and remit this to Australia Post.

Australia Post does not currently have any agreements in place which impose these obligations on overseas postal operators. In our view entering into such arrangements would be enormously difficult, both in terms of cost, and timing.

In our view, overseas postal operators would not agree to act as assessors and collectors of taxes levied by other nations unless they were fully compensated for the costs of making and maintaining all of the system, IT, point of sale, customer communication, collection and remittance changes which they would need to implement to do so.

Australia Post and freight providers will be exposed to unacceptable risk in relation to the delay in receiving settlement from foreign postal authorities, foreign exchange fluctuations, and in variances between GST estimated and actual collections.

As noted earlier, the validation of underlying information will make it difficult to detect errors and understatements in value as we do not have visibility of actual transactions which determine the value of the items. Validation risks also include difficulties in identifying zero rated items (B2B and GST Free sales) and processing refund claims. It is not acceptable that the transporter is the only party who is accountable for GST on Low Value Imported Goods as "it creates a single point of tax assessment". Such an outcome cannot be accepted as a reasonable outcome where overseas vendors and market places escape responsibility for transactions which are fundamental to their existence.

Further, as a net importer Australia Post is often disadvantaged in terms of bargaining power, particularly in discussions with key exporting nations. Including additional provisions in a bilateral or multilateral agreement with overseas postal operators would thus be difficult without having to trade-off against something else, which may not be in Australia Post's commercial interest.

As noted in Australia Post's 5 September 2017 submission 7, at present Australia Post has bilateral or multilateral data sharing arrangements in place with 33 countries. The data formats used for EAD differ across these arrangements, with only some operators providing some of their EAD including the detail required to enable Australia to undertake a GST assessment on the items. Australia Post only receives ITMATT (the electronic equivalent of data that is currently provided by senders on the CN22/23 form) from 15 countries which includes Group 1 and key trading lanes, however even then, only for select classes of mail.

Additionally, the data received by Australia Post is often incomplete (i.e. it may not include all of the information captured on the CN22/23 form) and further the data is not checked from a quality perspective (e.g. how much of the data is usable, correctly completed, etc.). While these agreements allow for the sharing of data between postal operators, the breadth and quality of that data is not currently sufficient to enable Australia Post to undertake a meaningful or accurate assessment of GST liability on each item as required by Amazon's proposed model.

Additionally, these agreements do not include a collection mechanism in respect of GST. The bi-lateral or multi-lateral agreements referenced by Amazon (in which Australia Post has a form of agreement with the United States Postal Service and with members of the Kahala Posts Group (KPG)) do not contain any provisions concerning, or contemplating, the prospect of any postal operator having the capacity or desire to assess or collect taxes for another postal operator. The agreements concern, at best, the exchange of article data based upon ITMATT criteria, and the comments made above concerning usability of that data are applicable to these agreements.

Amending existing agreements, or entering into new bilateral and multilateral agreements, to require overseas postal operators to meet these additional requirements in respect of the collection and remittance of Australian GST is not a straightforward exercise. From a practical perspective, it would be difficult for Australia Post to obtain agreement from overseas postal operators to take on any additional obligations, particularly in respect of the collection and remittance of taxes for Australia Post. Once again as a net importer Australia Post often needs to find something with which we can trade-off during such negotiations. In order to meet these obligations, overseas postal operators would likely incur significant costs in terms of updating systems, IT, processes, training staff, point of sale, customer information etc.

As has already been noted, it is highly unlikely that overseas postal operators would agree to take on any additional obligations or provide any additional services without being well remunerated or receiving some other form of compensation that Australia Post is not in a position to provide.

A number of other complexities would also need to be worked through. For example:

- in its submission, Amazon notes that Article 20 of the UPU Convention allows Australia Post to charge to originating postal operators tax charges (such as GST) via bilateral or multilateral agreements. Australia Post queries whether this is correct – Article 20 deals with the scenario where designated operators are authorised to clear items through customs and refers to charges imposed on customers rather than other postal operators. In order to recover the GST from the overseas postal operator, Australia Post would need to enter into separate agreements to allow for this. The ability to introduce – and the effectiveness of these arrangements in the context of the well-established UPU payment systems which operate under the UPU conventions, would need to be assessed. In Australia Post's view, this assessment process (which would have to be managed through the UPU) would take a long period of time, and would be unlikely to be agreed;

- as Amazon noted in its submission, legislative change may be required to enable Australia Post to charge the originating postal operators an additional amount on account of their GST liability. Australia Post's governing legislation, the Australian Postal Corporation Act 1989 (Cth), does not specifically empower Australia Post to collect and remit GST for the Australian Taxation Office, and as such this may need to be amended, which could take some time. Legislative change would also likely be required in a significant number of overseas jurisdictions in order to permit the designated postal operators to perform this additional role; and
- in respect of EAD, any data sharing arrangement would also need to be carefully considered from a privacy and data protection perspective before implementation. Australia Post needs to ensure that any data exchanged is stored and used in accordance with relevant privacy, data protection and regulatory requirements in the relevant jurisdictions. This is even more important in light of recent changes to European Union (EU) privacy legislation which imposes heavy burdens upon misuse of data.

Whilst the proposed Amazon modernized transporter model is interesting, at this stage Australia Post believes it would be impossible to economically implement, particularly from 1 July 2018. A number of bilateral and/or multilateral agreements would need to be negotiated as a first step, which amongst other factors (also outlined in this and our earlier submission) will take time and would inevitably incur significant (even prohibitive) costs.

4. Electronic Advance Data for GST Assessment

To determine whether EAD could be used to inform a GST assessment, consideration should be given to the quality of data, as well as the quantity of items for which data is provided. Notably, the consideration of the value of inbound articles forms only a small part of the overall activity required to collect GST payable on an article. The key additional steps required by postal operators to capture and process GST payable on low value goods is labour-intensive, costly and unavoidable, whether item level data is received via paper or electronic means.

Australia Post currently receives EAD on approximately half of all inbound items containing goods (not including untracked packets which are terminal dues articles (less than 2Kg) containing goods) and is working with border agencies to trial use of this data for screening purposes at Australia Post's Offices of Exchange (OEs). We note that this trial is limited to certain product types and limited countries for example, the Australia/New Zealand Green lane trial. Data quality continues to be a challenge across all countries, including key trading lanes and those in Group 1.

Use of the EAD within OEs for expediting customs clearance processes is practical, as the processes being streamlined are converting directly from paper to electronic and do not require additional processes to facilitate transportation or customer involvement – this contrasts directly with proposals to have a postal operator collect GST, which would inherently require development and payment for additional processes that are not yet being considered fully in development of the EAD work.

Use of EAD as a source for determining the declared value of an article will become easier and more reliable as postal operators increase their transmission of ITMATT and continue to educate sellers on the proper completion of electronic lodgement forms. This work is currently being progressed in the UPU, and through other arrangements in KPG, and bilaterally. However, it is expected to take multiple years even to have our key trading lanes and countries in Group 1 providing data of the quality and quantity required to undertake a meaningful GST assessment on each and every item. Further, it is important to note that, many low value items coming into Australia arrive as an untracked service, for which no data is currently provided. This would make compliance with the Modernised Transporter Model extremely difficult and costly for Australia Post, as it would involve a manually inspection of each and every item to determine value from a paper based CN 22/23 form.

5. Conclusion

Australia Post does not support Amazon's proposed Modernised Transporter Model for the reasons noted in this supplementary paper and our original submission.

Australia Post would not be in a position to adopt and comply with the requirements of Amazons "Modern Transported Model" from 1 July 2018 nor the immediate future. The proposed model in our view, is not practical or viable particularly given the infancy of the UPU's work on EAD and the additional cost burden this model it would impose on Australia Post.

Importantly the additional costs incurred by Australia Post in implementing and delivering the Modern Transporter Model would exceed the revenue that would be collected by Australia Post, rendering the model unviable and unfair. Further, implementation of this model would result in increased costs on the existing mail streams, impacting the overall profitability of Australia Post and, in turn, on any future dividend payment to our shareholder; the Australian Government.

Finally, we would support, as we have previously expressed - the legislated model, which aligns with Parliament's policy objective to "level the playing field for Australian retailer and maximise GST revenue" a model which can be implemented by 1 July 2018.