

29 August 2017

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Attention: Melinda Cilento | Presiding Commissioner

Collection Models for GST on Low Value Imported Goods inquiry

Dear Ms Cilento,

DHL Express (Australia) Pty Ltd ("**DHL**") is present in over 220 countries and territories across the globe, making it the most international company in the world. DHL is part of the world's leading postal and logistics company Deutsche Post DHL Group, and encompasses a number of business units including global forwarding and supply chain logistics.

DHL is also a member of the Conference of Asia Pacific Express Carriers (Australia) Limited ("**CAPEC**") which is an industry association representing the interests of the world's leading integrated air express parcel delivery companies. Its members are DHL, FedEx, TNT and UPS.

DHL wishes to lodge a submission in respect of the Collection Models for GST on Low Value Imported Goods inquiry ("**Inquiry**").

DHL has been closely involved with the issue of GST on Low Value Goods for over 15 years and has worked with a range of both public and private stakeholders. DHL is therefore well qualified to make comment to the Inquiry on what it sees as the most effective and efficient GST collection models on Low Value Imported Goods.

DHL endorses the Vendor Collect Model ("**VCM**") as legislated under the *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* ("**Bill**") in favour of the hybrid Border Collect Model ("**BCM**") that was put forward by the Low Value Parcel Processing Taskforce ("**LVPPT**") in 2012.

DHL views the BCM as a proven unviable option, as per the Productivity Commission report of 2011 and the sentiments of all subject matter experts that have worked at it at any reasonable level since.

Notwithstanding this, DHL does not support the obligation under the bill for additional information to be captured and reported, namely the Vendor Registration Number, Australian

Business Number and the extent, if any, to which each supply has been treated as a taxable supply.

As outlined by CAPEC at the Senate Economics Legislation Committee Hearing, the proposed VCM requires additional vendor registration information to be captured and reported by Transporters. Notwithstanding this, DHL is of the view that GST compliance and enforcement requirements can be maintained via alternate reporting arrangements. To this end, it remains in dialogue with the ATO and Treasury to investigate all potential options of meeting the obligations under the legislation in the most efficient and effective way.

It is critically important that any reporting obligations imposed on DHL be also applied to Australia Post. This creates a level playing field consistent with the COAG Competitive Principles Agreement. In this regard, DHL is encouraged by recent comments¹ made by Treasury to the effect that Australia Post will also be required to report additional vendor registration information for all consignments (other than international mail).

Vendor Collect Model:

DHL endorses the VCM for a number of reasons:

- Provides better transparency of online purchases
- Creates the same process as purchasing domestic goods online
- The collection of GST at an earlier point in the supply chain, i.e. at the point of sale, enables a more efficient flow of goods across the border
- Minimises collection costs, compliance and enforcement costs for government (Australian Border Force and Australian Taxation Office) and delivery delays to consumers

Border Collect Model:

- Examined by the Productivity Commission in 2011 and found to create a **net welfare cost**²
- It also found that:
 - "Overseas and domestic retailers should be treated similarly"
 - "Taxes should be collected efficiently to minimise the deadweight loss for the community. This deadweight loss arises from not only the administrative and compliance costs, but also any undue delays in delivery to businesses and consumers that may result from the process of collection"³
 - Because the value of the majority of international parcels is low, significant amounts of tax revenue do not start to be collected until the Low Value Threshold ("LVT") is also quite low
- 81 – 87% of international parcels arriving in Australia were below \$200 in value⁴

¹ Senate Economics Legislation Committee | Page 62, Hansard Transcript, 21 April 2017 - *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* | "Where Australia Post competes with cargo and DHL for example ... where Australia Post competes

² Economic Structure and Performance of the Australian Retail Industry | Productivity Commission Inquiry | "would generate revenue of around \$600 million at a cost of well over \$2 billion borne by businesses, consumers and government." (page 169)

³ Economic Structure and Performance of the Australian Retail Industry | Productivity Commission Inquiry | Overview xxxi

⁴ Economic Structure and Performance of the Australian Retail Industry | Productivity Commission Inquiry | Overview xxxii

- Lowering the threshold to \$20 would raise in excess of \$550m in tax revenues, but the cost of the processing using the current system would escalate to over \$2bn, more than **three times** the additional revenue collected.

The Productivity Commission recommended that “the Government should establish a taskforce of independent experts, advised by representatives from Customs, Australia Post, Australian Quarantine and Inspection Service, and the express couriers, to investigate a new approach to processing parcels, particularly those in the international mail stream.”

The Low Value Parcel Processing Taskforce

- DHL worked extensively with the LVPPT in carefully examining a range of different Duty and GST Collection Models for Low Value Goods. This included providing a comprehensive tour of its Sydney Gateway Facility at Mascot and reviewing process flows and reported data.
- A number of recommendations were made (17 in all) around potential processing improvements and collection models.
- Whilst many of the recommendations attempted to address the challenges associated with “pure” collection models, these “hybrid” models did not prove successful. For example, breaking the nexus between the payment of GST and border release from a Customs Licensed Depot would ease congestion at one point in the supply chain but simply create an additional step in the process that added to cost and transit time.⁵
- Recommended a form of BCM⁶ but not without a range of criteria being examined in detail first; including various *de minimus* thresholds, reconfiguring ICT systems to enable data capture, changes to the GST deferral scheme, and reform of the international mail pathway.
- A key recommendation of the LVPPT was that ongoing work should continue:

“A Steering Committee consisting of senior representatives from Customs and Border Protection, the ATO, DAFF Biosecurity, CAPEC, Australia Post, and a representative from the States and Territories would be needed to oversee the development and implementation of these change processes.”⁷

Interdepartmental Committee

In 2013, the Low Value Threshold Inter-departmental Committee considered a number of different collection models and formed a view that the Border Collect Model was not economically viable.⁸

⁵ Refer **attached** photos taken at DHL’s cargo handling facility in Sydney

⁶ Low Value Parcel Processing Taskforce | Final Report 2012 | Recommendation 4.1

⁷ Low Value Parcel Processing Taskforce – Final Report July 2012 | Recommendation 4.1

⁸ Low Value Threshold Project Working Group (Interdepartmental Committee) was established in 2013 following the LVPPT Final Report. It was chaired by the (then) Australian Customs and Border Protection Service and comprised of representatives from Treasury, ATO, CAPEC, Australia Post and other industry stakeholders.

Models considered included border collection, vendor collection, premium vendor collection, purchaser registration and remittance, and financial intermediary collection. It is true to say, therefore, that an extensive investigation into alternate models has been undertaken since the LVPPT handed down its Final Report in 2012.

At a global level, the OECD and G20 continue to look at models to (efficiently) apply GST to low value goods. The Transitional Standard 4.13 of the General Annex to the (Revised) Kyoto Convention recognizes that:

“the collection and payment of duties and taxes should not be required for negligible amounts of revenue that incur costly paperwork, both for the customs administration and the Importer / Exporter”.⁹

Further, the World Customs Organisation has recognized that having a *de minimus* threshold is a viable solution to a global challenge:

“Where the value of the goods and their respective amount of duties and taxes is lower than the cost to administer this shipment (small consignments), governments spend more money on this administrative process than they collect in duties and taxes.”¹⁰

Alternate GST Collection Models

DHL has noted, with interest, a number of alternate GST Collection Models that have been put forward to the Inquiry. Many of these models differ significantly from those examined by the LVPPT, LVT Interdepartmental Committee and other subject matter experts over the past 5 years.

In considering these alternatives, DHL would urge the Inquiry to investigate the claims being made. Some of the assumptions in respect to many of the costs require careful consideration to ensure the modelling is robust and the projected outcomes are accurate. Such costs may include ICT systems development, implementation timelines, compliance rates and the actual mechanisms behind collecting and remitting the GST itself.

DHL's long-standing involvement with this issue has established one key principle; that is, not to over-simplify complex processes and challenges faced by key stakeholders along the international supply chain. To do so leads to complex, costly processes and poor policy outcomes.

⁹ The economic impacts of changing arrangements for the importation of low value products | The Centre for International Economics | February 2016

¹⁰ World Customs Organisation - Immediate Release Guidelines 2006

Conclusion

The legislated VCM is therefore the clearly preferred option over a BCM. Notwithstanding the VRN reporting requirements on DHL (which are being worked through with the ATO and Treasury in a constructive manner), the model provides an effective and efficient collection of revenue pre-arrival. This, in turn, prevents congestion and costly collection processes upon arrival.

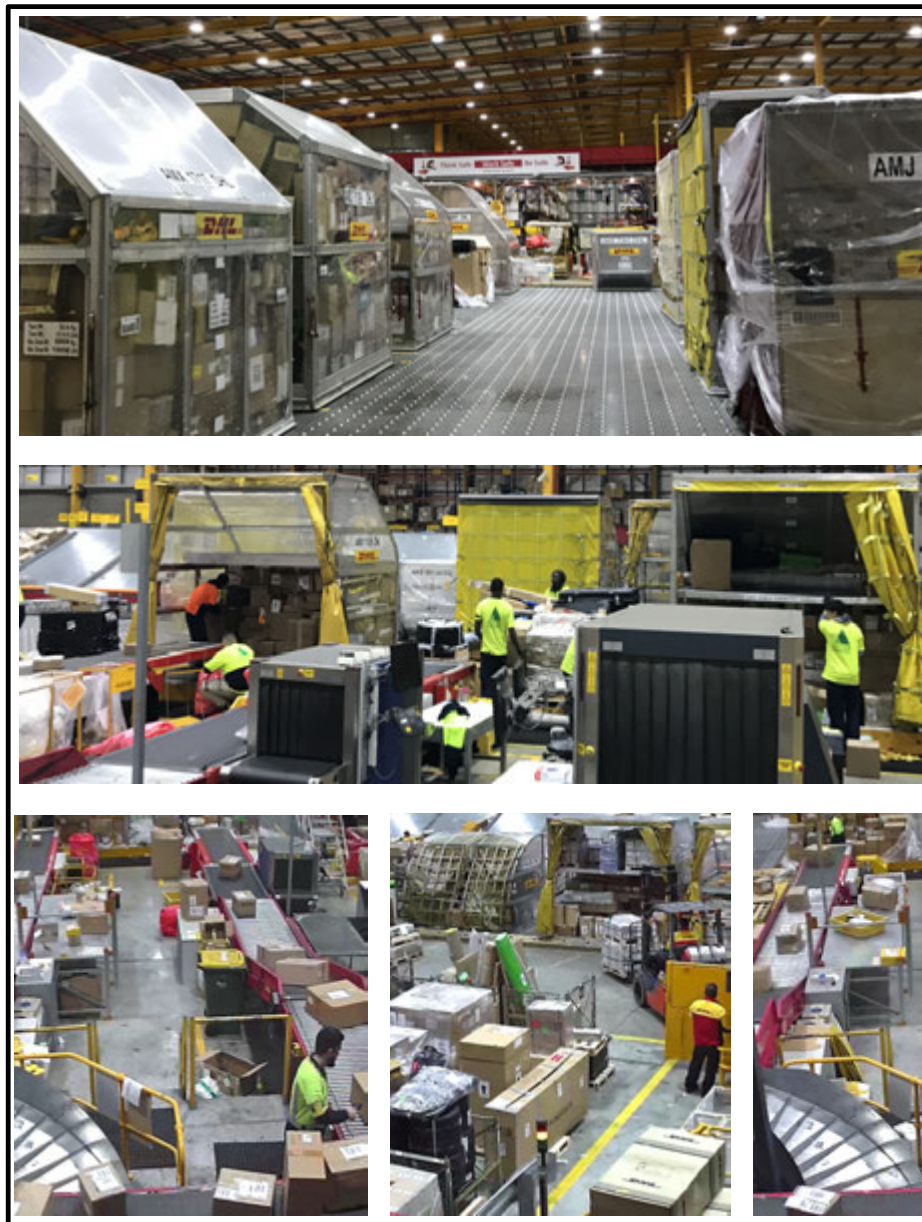
DHL would like to thank the Productivity Commission for the opportunity to contribute to the Inquiry and looks forward to ongoing consultation in the lead up to the final report being handed to Government on 31 October 2017.

Note: A CAPEC submission to the Inquiry is being prepared that provides additional information in respect to the air express carrier industry.

Kind regards,

Ben Somerville,
Senior Manager, Customs & Regulatory Affairs,
DHL Express Oceania

Photographs showing DHL's Cargo Handling facility in Sydney. High volumes of low value goods shipments are processed here daily.



In a single day, more than 25 flights with over 60 Unit Load Devices (Aircraft containers) can arrive with up to 15,000 individual shipments. If such volume is not processed efficiently upon arrival the ramifications would be significant.