



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,

The Conference of Asia Pacific Express Carriers (Australia) Limited (“CAPEC”) 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.

CAPEC wishes to lodge a submission in respect of the Collection Models for GST on Low Value Imported Goods inquiry (“Inquiry”).

CAPEC supports the legislated GST collection model and is strongly opposed to any alternatives that require the GST to be collected upon arrival at the border.

CAPEC has been closely involved with the issue of GST on Low Value Goods for over 15 years. During this time it has worked extensively with a range of both public and private stakeholders including the Productivity Commission, Department of Immigration and Border Protection, Department of Agriculture & Water Resources, the Board of Taxation, Treasury, Australian Taxation Office, and a range of Taskforces/Working Groups/Committees established by both sides of Government.

In short, CAPEC is 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.

CAPEC gave evidence at the Senate Economics Legislation Committee Hearing held in Melbourne on 21 April 2017 in response to the proposed *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* (“Bill”). The CAPEC position at the Senate Hearing can be summarized as follows:

“Given that the Government has mandated that it will collect GST on low value shipments, CAPEC supports the bill insofar as the vendor collect model would be a more efficient model for collection of GST than at the border.”

“We (CAPEC) see this (the *Border Collection model*) as a proven unviable option, as per the Productivity Commission report of 2011 and the sentiments of all that have worked at it at any reasonable level since.”

“CAPEC does not support the obligation under the bill for additional information to be captured and reported by CAPEC members, namely the VRN,



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

“There is a significant disparity between the reporting requirements on CAPEC members versus Australia Post.”

“The COAG Competitive Principles Agreement stipulates that government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership, and governments are to ensure that they impose the same obligations on government business enterprises as they would on privately owned enterprises.”¹

As outlined by CAPEC at the Senate Economics Legislation Committee Hearing, the proposed Vendor Collect Model (“VCM”) requires additional vendor registration information to be captured and reported by Transporters. Notwithstanding this, CAPEC 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.

Based on evidence given at the Senate Economics Legislation Committee Hearing by Treasury official Mrs Purvis-Smith², it is clear that Australia Post will also be required to report additional vendor registration information for all consignments (other than international mail). CAPEC AU members accept Treasury’s public commitment to making this happen by 01 July 2018.

Vendor Collect Model

[as enacted under the *Treasury Laws Amendment (GST Low Value Goods) Bill 2017*]

CAPEC endorses the VCM for a number of reasons:

- Provides better transparency of online purchases, i.e. consumers can see the total cost payable at the time of sale (and can accept or abort the transaction at Check-Out based on this cost)
- 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
- Provides a much better customer experience than the Border Collect Model
- Minimises:
 - € Collection costs for transporters
 - € Compliance and enforcement costs for government (Australian Border Force and Australian Taxation Office)
 - € Delivery delays to consumers

¹ Senate Economics Legislation Committee – Page 32, Hansard Transcript, 21 April 2017 - *Treasury Laws Amendment (GST Low Value Goods) Bill 2017*

² 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 in that market, it will need to do the same thing”.



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Border Collect Model (BCM)

[Low Value Imported Goods remain under regulatory control until all border risks and GST liabilities are acquitted]

- Examined by the Productivity Commission in 2011 and found to create a **net welfare cost**³
- 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”⁴
 - Because the value of the majority of international parcels is low, significant amounts of tax revenue do not start to be collected until the LVT is also quite low
 - 81 – 87% of international parcels arriving in Australia were below \$200 in value⁵

CIE determined in 2011 that a conservative estimate of additional costs to express carriers is \$30 per consignment. Given an average value per consignment of \$118.40, with a nominal GST of \$11.84, this points to the cost of processing being **three times** the additional revenue collected⁶.

As a result, 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 (LVPPT)

- CAPEC worked extensively with the LVPPT in carefully examining a range of different Duty and GST Collection Models for Low Value Goods. This included tours of cargo handling facilities, review of process flows and data sharing.
- 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 by combining two or more models to operate in conjunction with each other, 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.
- The LVPPT made it clear that its recommendations “provided a direction for policy development but were not a case for business reform.”

³ 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)

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

⁵ Economic Structure and Performance of the Australian Retail Industry | Productivity Commission Inquiry | Overview xxxii

⁶ The GST threshold for low value products, Economic Analysis | Centre for International Economics | 2011



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- It also recommended that a VCM, which is similar to what has been enacted under the Bill, “warrants further analysis as part of an integrated reform package.”⁷
- 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.”⁸

Interdepartmental Committee (IDC)

In 2013, the Low Value Threshold (“LVT”) Project Working Group / Inter-departmental Committee considered a number of different collection models and formed a view that the Border Collect Model was not economically viable.⁹

Models considered by the IDC 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.

CAPEC **strongly opposes** this (*Border Collection*) Model in that it would create a number of additional steps in the border clearance and delivery process. These steps include, but are not limited to:

- Collation of ABN and/or CCID (Customs Client Identification Number) data;
- Reconciliation of ABN data to the GST Deferral Scheme;
- Classification (to validate GST exemptions);
- Valuation (to establish the VoTI);
- Increased staff numbers (licensed customs brokers / data entry / classifiers / billing and collection / customer service);
- Office, warehouse and storage costs – need to house more employees and hold cargo until the GST has been paid.
- Administrative rework – activities associated with the disposal of and/or return of uncleared shipments

These additional steps represent a significant increase in costs that increase exponentially per value of shipment as the LVT decreases further. CAPEC members obviously do not discuss specific costs between each member, however high level discussions with the IDC have indicated the following could be used as a guide:

⁷ Low Value Parcel Processing Taskforce | Final Report 2012 | Recommendation 4.3

⁸ Low Value Parcel Processing Taskforce – Final Report July 2012 | Recommendation 4.1

⁹ 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.



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LVT	% Cost Increase
\$500	> 115%
\$200	> 330%
\$100	> 560%
Nil	> 1540%

The Australian Government's approach to globalization and the creation of bi and multilateral Free Trade Agreements to promote trade and reduce regulatory red tape could be compromised. The changing dynamics in today's world of international trade enable changes in market access to be responded to instantaneously through withdrawal from markets.¹⁰

Due to the vast majority of Low Value Goods being less than \$200 (on average \$118.40¹¹), decreasing the threshold to \$500, as has been suggested by some, would not achieve the intended policy objective of the legislation.

The OECD and G20, however, 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".¹²

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."¹³

A number of countries have recently increased their *de minimus* thresholds in recognition of this challenge, i.e. that collecting duty and taxes on low value goods upon arrival at the border is simply not economically viable.

USA	Increased from USD200 to USD800	[Dec 2015]
Philippines	Increased from PHP10 to PHP10,000 (USD200)	[Oct 2016]
Indonesia	Increased from USD50 to USD100	[Jan 2017]

Recognising this complex challenge, a number of other countries are currently considering a "non BCM" approach, including Singapore, New Zealand, China and Taiwan.

¹⁰ CAPEC Industry Impact Statement submission to the LVT Project Working Group (Interdepartmental Committee) in response to a suggested Border Collection Model | 19 September 2013

¹¹ The economic impacts of changing arrangements for the importation of low value products | The Centre for International Economics | February 2016 (Page 26)

¹² The economic impacts of changing arrangements for the importation of low value products | The Centre for International Economics | February 2016

¹³ World Customs Organisation - Immediate Release Guidelines 2006



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A simple example can be used to demonstrate the cost of a border collection model:

- € In 2014-15 CAPEC members handled 8.8 million shipments of Low Value Goods into Australia¹⁴
- € This equates to 34,000 shipments per day to what are predominantly non-account customers
- € Based on an average of 12 minutes per shipment to verify particulars, this equates to 900 call centre personnel contacting customers every day
- € This should be taken against the backdrop of another 34,000 shipments arriving the following day, and so on
- € The congestion and cost caused as a result of this would create significant challenges
- € In addition, Australia Post would be even more impacted than CAPEC members given its high volume of Low Value parcels.

GST Collection Model Comparison

The **attached** 'info-gram' highlights the primary steps associated with each of the GST Collection Models. It clearly shows the impacts to all key stakeholders along the international supply chain.

The Productivity Commission determined in 2011 that it would cost \$2bn per annum to collect additional taxes of \$550m per annum under the BCM if the LVT is lowered to \$20. In contrast to this, CIE estimated in 2016 that the cost of collection under the VCM is 10% of the amount of GST collected¹⁵.

Alternate GST Collection Models

CAPEC 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, CAPEC would urge the Inquiry to conduct a thorough and comprehensive investigation of the claims being made. Some of the assumptions in respect to many of the costs require careful consideration to ensure the modeling 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.

CAPEC'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.

¹⁴ The economic impacts of changing arrangements for the importation of low value products | The Centre for International Economics | February 2016

¹⁵ The economic impacts of changing arrangements for the importation of low value products | The Centre for International Economics | February 2016 (page 50)



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Conclusion

The VCM is therefore the clearly preferred option over a BCM. It aligns with all five of CAPEC's guiding principles in that it provides:

- ✓ Point of Sale GST collection at origin (*effective and efficient collection of revenue*)
- ✓ Equitable vendor registration reporting requirements (*competitive neutrality between air express and postal cargo*)
- ✓ Less red tape and greater certainty for consumers (*consistent application of border clearance and taxation arrangements*)
- ✓ Ensures an air "express" pathway is maintained for all Australian consumers (*recognition of CAPEC members' unique and essential role as a provider of time definite delivery services*)
- ✓ Collaborative approach with ATO and Treasury to streamline reporting processes and maximize compliance levels (*ongoing and meaningful consultation with Government*)

As the rapid spread of technology continues to reshape global business models, governments must adapt their regulatory approaches to those models. Cross border e-commerce represents an unprecedented opportunity for the global economy – but only if governments can simplify the administrative costs and complexity at the border. The Australian government is exactly right to be moving in the direction of separating duty and tax payments from physical clearance of goods at the border. The VCM is the model of the future and is the most efficient and equitable approach to global e-commerce.

CAPEC members therefore support the VCM under the Bill, acknowledging there are some complexities around vendor registration reporting requirements that still need to be worked through. This will ensure that GST is collected and remitted to the ATO efficiently and effectively whilst creating a level playing field between CAPEC members and Australia Post.

CAPEC 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.

Yours sincerely

Kim Garner | Chairman of the Board of Directors
Conference of Asia Pacific Express Carriers Australia Limited