



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

## **Australia Post further supplementary submission**

### **1. Executive summary**

For reasons of cost, efficiency and effectiveness in maximising tax recoveries, Australia Post is wholly unable to support the Modernised Transporter Model proposed by Amazon as it places an unacceptable financial burden and unacceptable levels of risk on Australia Post and Freight express providers.

In Australia Post's opinion, the financial costs and business disruption to postal and freight express providers would – if they were to be required to assume the burden of reengineering international relationships and collecting the equivalent of GST on Low Value Imported Goods – be unfair and out of proportion to the relative roles each party has in the international sales and importation process and the revenue raised by each party.

In considering the Modernised Transporter Model, Australia Post has taken into account the original cost estimates it provided to the Senate Inquiry in April 2017 and examined the cost impacts for the Amazon proposal whereby postal and freight express providers would be required to factor the GST collection into settlement procedures with their suppliers and from overseas postal operators in the country of origin.

In addition Australia Post is extremely concerned by the cash flow implications of Amazon's Modernised Transporter Model as it would inevitably require Australia Post to finance the GST on Low Value Imported Goods while payment arrangements are progressed and concluded with international shippers, origin postal operators and the Universal Postal Union (UPU).

### **2. Cost modelling**

#### **Scenario 1 – Baseline Cost Model**

In the original cost modelling provided to the Senate Inquiry in April 2017, Australia Post advised in its submission that approximately \$880 million would be required to support both the Border Collection Model and Transporter Model for physical assessment and collection of GST at the border. In estimating additional costs (as outlined below), we have excluded the potential availability of EAD for border clearance and GST purposes, and have assumed that standard letters are to be excluded from GST consideration. On this basis, we estimate that:

- additional staffing costs of up to \$560 million would be required in new employment and training costs for staff and for necessary customer education campaigns;
- administering, enforcing and complying with this responsibility would require \$160 million in new costs, additional to staffing expenses;

- there would be a high likelihood of abandonment and non-payment, especially for very low value goods. Processes for managing abandoned goods are cumbersome under the *Customs Act 1901*, as notification to customers is required to allow recipients 30 days for responses, and because additional costs would be imposed upon Australia Post in terms of returning abandoned goods to the sender, resulting in \$120 million in return/abandonment costs; and
- additional infrastructure costs would be incurred to increase warehouse, equipment and storage capacity for items to be assessed, and to create new IT systems. We estimate that at least \$50 million would be needed for implementation.

## Scenario 2 – Baseline Cost Model with EAD Optimisation

To collect GST on untracked packets under the Border Collection model (whilst optimising Electronic Advanced Data (EAD) on other product such as EMS, Air Parcels, Tracked Packets) Australia Post would need to recover costs of \$540 million per annum growing with increased volumes, and a \$162 million capital investment. This assumption results in a recovery rate of \$14.30 per item, which is 376% more than Amazon's proposal of \$3.00 per item in collection costs.

A collection on delivery scenario has not been priced, however costing would require capital investment in technology for portable payment terminals. An inevitable increase in carding and re-delivery rates would need to be costed back to the organisation, as would the costs incurred by Post Offices as a result of reduced efficiency of the network delivery model.

The costing model did not include cost recovery arrangements for funding this implementation scenario for Australia Post.

## 3. Amazon Modernised Transporter Model – Cost Impacts

Under the Amazon proposal there is an assumption made that Australia Post has the ability to charge, receive and remit the GST on low value non-letter mail importations. This assumption is not correct as it assumes that the current receipt of data can be used for GST assessment and that appropriate data systems are currently in place.

The key differences between the original costing provided in April 2017 to the Senate Inquiry by Australia Post and the Amazon submission is the assumption that, under the Modern Transporter Model:

- the taxable GST pool for volumes remains the same for all items. This is inappropriate, as it does not take into account volumes for \$0 GST value assessment or volumes that are abandoned for GST assessment or that may require a GST refund; and
- there would not be a requirement to store items, as GST will be charged to the supplier directly or to the origin postal operator. This assumption does not take into account the treatment for untracked packets volumes that are not required to have EAD or a S10 barcode.

## Volume assumptions

Volume assumptions used by Australia Post are outlined in the table below:

<b>Annual Operating Costs</b>	(less Storage Costs)	\$335m per annum
<b>Capital Investment Costs</b>	(one-off)	\$63m
<b>Volumes</b>	FY19 (eligible products EMS/Air Parcels/Tracked Packets)	55.9m (items)
	<i>less volume of items \$0 value for GST collection</i>	6.8m (items)
	<i>less volume of items where GST is refused (ie abandoned, return to sender) or GST refund is sought</i>	11.2m (items)
	Revised total	<b>37.9m (items)</b>

### *Untracked packet volumes*

Packets make up 92.1% of volume under \$1000, of which approximately 71.3% is untracked packets, which are not currently required by UPU rules to have accessibility to EAD. These products are dispatched as part of Letter Class Article Others bags, for which item counts are not necessary. For GST collection on these products, either a storage & notice solution or a payment at delivery mechanism would need to be created for GST collection purposes.

### *Nil storage requirements*

Under the assumption for nil storage requirements, it is assumed that all non-letter product will be able to be tracked through developing EAD product. From modelling undertaken, a minimum annual cost to be recovered by Australia Post would be \$335 million operating costs per annum, which increases each year with volumes, and initial \$63 million one-off capital investment.

### *Recovery rate per item*

Under the Amazon proposal, it is assumed that the costs for implementation are incremental due to Australia Post's ability to interface an EAD interchange with our financial systems, and an ability to reduce the cost per item at \$3.00 is therefore assumed.

Australia Post's cost modelling shows that handling and processing costs will be \$8.84 per item – 194% above the \$3.00 recovery rate proposed by Amazon with key reductions from the nil storage requirement, but based upon the operating costs of \$335 million by the new assessment volume pool of 37.9 million items.

## 4. Key differences between the models

In Australia Post's view, the assumptions made by Amazon in proposing the Modernised Transporter Model do not sufficiently take into account:

- 1) Yield efficiency;
- 2) Packet assessment;
- 3) Ability to collect customs duties and other fees; or
- 4) Cash flow impacts.

These considerations are discussed in further detail below.

### **Yield efficiency**

It is proposed by Amazon that the Modernised Transporter Model would yield efficiency and that the value of GST likely to be collected over the first 5 years compared to the legislated model would be higher by a factor of 125% due to the capability of EAD between international postal services. However, what is not clarified within the Amazon Modernised Transport Model proposal is that only articles which have an S10 barcode identifier can have EAD associated with them, and that EAD is not currently a mandatory requirement under UPU rules for 2018.

### **Packet assessment**

Packets make up 92.1% of the volume of articles under \$1000, of which 71.3% are untracked packets in respect of which EAD or S10 barcodes are not mandatory. Untracked packets fall into the lower value range for GST assessments of articles under \$100.

China origin untracked packet volumes make up 77% of the overall untracked packet pool, overwhelmingly containing lightweight items which are of low value (ie under \$10) – such as phone covers, fashion, jewellery and current crazes such as fidget spinners. Therefore the average valuation of product in the \$0-\$100 range, at \$45.20 in 2018-19, seems overstated, as does the GST recoverability assumption. Assuming a non-China average at \$45.20, and China \$10, the average becomes \$18.09, therefore reducing \$98 million GST recoverable in 2018-19 on the Amazon assumption.

### **Ability to collect customs duties and other fees**

It is proposed by Amazon that the Modernised Transport Model is permissible by leveraging the provisions of the UPU Letter Post Regulations and Parcel Post Regulations – in particular Article 20 (item 3 & 4) – so as to allow Australia Post to collect 'customs duty and all other fees which may be due' from other postal operators.

Australia Post takes the view that the regulations quoted by Amazon contemplate collection of some customs charges from senders or addressees of postal articles, but not postal administrations in other countries.

In order to compel assessment by, and then receive GST collected by, other postal operators Australia Post would need to enter into, or significantly amend, a number of bilateral and or multilateral agreements. Origin postal operators would be required to agree to establish complex systems and procedures so as to be able to remit to Australia Post the Australian GST payable on all items. In Australia Post's view, overseas postal operators would only undertake these activities if they were guaranteed a commercial return, with a margin. Such a process would, in Australia Post's view, be costly, difficult to implement and resource intensive.

### **Cash flow impacts**

Australia Post notes that under the Modernised Transporter Model it would be required to account for GST on Low Value Imported Goods in its Business Activity Statement – due 21 days after the end of the month of importation.

Under current settlement arrangements with overseas postal operators and the UPU, Australia Post would never be in a position to recover payment of terminal dues or, by extension, 'other charges' (as suggested by Amazon) as being the mechanism for passing through the collected GST prior to the day on which remittance of the GST would be due. In reality, settlement arrangements rarely result in payment being received within 12 months of the importation date.

If the Modernised Transporter Model were implemented Australia Post estimates that it would be required to fund in excess of 50% of the GST Amazon suggests would be collected in the first year – increasing in line with the volume of collections.

On the above estimate, GST collections by the ATO (and, indirectly, by the States) in the first year would include over \$150 million of Australia Post financed cash increasing to over \$750 million once the level of GST collections reached \$1.5 billion per annum from 2021-22.

Using Australia Post funding to finance Australian Government payments of GST to the States while cash is held by offshore vendors, marketplace operators, and overseas postal authorities defeats the objective of the introduction of GST on Low Value Imported Goods.

## **5. Conclusion**

Australia Post's firm view is that the additional costs incurred by Australia Post in implementing and delivering the Modernised Transporter Model proposed by Amazon would significantly exceed the GST revenue likely to be collected by Australia Post. This would clearly render the model unviable and unfair.

Additionally, implementation of the model would result in increased costs on the existing mail streams, impacting the overall profitability of Australia Post and, in turn, on any future dividends payable to Australia Post's shareholder, the Australian Government.