



**Australian Government**  
**Productivity Commission**

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**PRODUCTIVITY COMMISSION**

**INQUIRY INTO COLLECTION MODELS FOR GST ON LOW  
VALUE IMPORTED GOODS**

**MS M CILENTO, Presiding Commissioner**  
**MR J COPPEL, Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT 530 COLLINS STREET, MELBOURNE**  
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5 **MS CILENTO:** Good morning, everyone. Thank you for coming to participate in the inquiry. My name is Melinda Cilento, I'm a Commissioner on the inquiry, as well as Jonathan Coppel. Of course we're here for the Productivity Commission's Inquiry into Collection Models for GST on Low Value Imported Goods.

10 Can I start by acknowledging that we meet on the lands of the Wurundjeri people of the Kulin Nation and pay my respects to elders past and present.

15 As you will be aware, the Commission was requested by the Australian government to undertake this inquiry in June of this year and we're expected to report back by the end of October. So it is a fairly truncated process for us, by our usual standards, which means that these hearings in particular are quite important in influencing our thinking and providing information for the broader team to take into consideration.

20 The inquiry has been tasked with considering the amendments to existing tax legislation in relation to the collection of GST on low value imported goods, and in particular giving consideration to the effectiveness of the amendments and whether models other than the legislated model might be suitable. As I've said earlier, we're very grateful for people who  
25 have taken the time to be with us here, we've had a set of hearings in Sydney earlier this week, and we appreciate that people have responded in a relatively short timeframe to our requests for information.

30 This is the last of the public hearings that we'll be having. Following the hearings today and the receipt of submissions, we will, of course, be putting together a final report to Government, as I said, by the end of October. We tend to try to conduct these hearings in a relatively informal manner, but it is important to acknowledge that the hearings are being  
35 recorded and that there will be a public transcript of the hearings made available on the Productivity Commission's website, and that there are penalties that apply for knowingly giving false or misleading statements. So that's the sort of official bit out of the way, if I can put it that way.

40 Is there any media in the room today? No. I don't need to deal with that. I forgot to ask about our own health and safety evacuation.

**MR COPPEL:** So in the event of an emergency evacuation, there will be two tones, one is a "bip", which is essentially just a warning message, no  
45 need to do anything different other than to listen for further instructions.

And if you hear a “whoop whoop” sound, that means that it’s an evacuation. There will be wardens that will give directions, you follow those directions, don’t use the lifts and the meeting point is down towards the river. So you go outside and turn left into King Street and walk away from the building.

5

**MS CILENTO:** Thank you. That’s all of the formalities. We’ll invite participants forward, some opening comments and remarks, and then questions from us, if that’s all right with everyone. If you wouldn’t mind introducing yourselves and your affiliations, please.

10

**MR GARNER:** Certainly. Commissioners, thanks for the opportunity to present our case today, we’re from CAPEC. CAPEC stands for the Conference of Asia Pacific Express Carriers. It’s an industry association representing the interests of DHL, FedEx, TNT and UPS. We work closely with governments and regulatory authorities to facilitate trade expansion and economic growth in Pacific Rim countries, and each member operates in over 200 countries worldwide, moving over 5 billion international shipments annually.

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20        My name’s Kim Gardner, I’m a director of CAPEC Australia and the current chairman of directors, and I’m also the Managing Director of FedEx Australasia. With me today is Ben Somerville. Ben is the current secretary of CAPEC Australia and he is also the Customs and Regulatory Affairs Manager, Oceania for DHL.

25

We come to today’s hearing as longstanding participants in a range of discussions and initiatives in relation to GST on low value goods. We have participated in a range of things over the last eight to 10 years, including a CIE - Centre of International Economics – report in May 2011, the Productivity Commission inquiry in November 2011, a Low Value Parcel Processing Taskforce in July 2012, a further CIE report in February 2006, and then the recent Senate inquiry in April 2017. We have provided full references to these reports in our written submission and we will refer to some of them in today’s discussion as well. I would add that that’s not the only things we’ve been involved in, but they are the key things that we will table for today.

30

35

Our submission today starts with the recent Senate inquiry in April. At that inquiry it was CAPEC Australia’s stated position that given 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, provided it’s workable and cost effective.

40

Secondly, at the inquiry we did not support the obligation under the Bill for additional information to be captured and reported by CAPEC members, namely, the vendor registration number, ABN and the extent, if any, to which each supply is being treated as a taxable supply. We raised a significant disparity between the reporting requirements on CAPEC members versus Australia Post, and we also raised the COAG Competitive Principles Agreement which stipulates that Government businesses should not enjoy any nett 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.

That was what we presented at the Senate inquiry. Now, taking each of those in turn, and I'll do this in reverse order, at the Senate inquiry, when questioned on the reporting requirements, Treasury stated that Australia Post will need to comply with the same reporting requirements as express carriers. So CAPEC Australia members accept Treasury's public commitment to making this happen by 1 July next year, but we also understand that Australia Post is already working towards being able to comply with that. Since the Senate inquiry, CAPEC Australia has also engaged again with Treasury and ATO officials re the reporting requirements, and all parties are working on the most efficient and effective way of meeting the obligations specified in the legislation.

Whilst there could still be a material cost to CAPEC members to meet that, we're committed to working with the register of authorities on ways to minimise red tape whilst still enabling the checks and controls that the regulators are seeking to achieve. So that is work in progress that we continue to work with those bodies on. Which takes us back to our first point where we maintain our support of the vendor collect model, which underpins the legislation which has recently been passed.

At the recent Senate inquiry and already at this hearing we've seen various participants promote the transporter model, also known as the border collect mode, as a more viable alternative than the legislated vendor collect model. And there's also been discussions on a hybrid model, which is a combination of the vendor collect model and the transporter model. Just to clarify, the vendor collect model is where the overseas vendor collects GST at time of purchase; the transporter model is stopping packages at the border and collecting GST from recipients.

So what I'd like to now do is present a range of facts and information that support CAPEC's position that the border collect model is a highly inferior option or alternative. The 2011 Productivity Commission hearing found the following: it found that 81 to 89 per cent of international parcels

arriving in Australia are below \$200 in value; it found that lowering the threshold to say \$20 would raise around about \$550 million in tax revenues, with the cost of processing using current systems that it would escalate to over \$2 million per year, so more than three times the additional – that the  
5 cost of collecting the revenue would be three times more than what was collected.

As a result, the PC recommended that the Government should establish a taskforce of independent industry experts to investigate a new approach  
10 to processing parcels, particularly those in the international mail stream. So that resulted in what was known as the Low Value Parcel Processing Taskforce, which provided a final report in July 2012. In that process there was quite a few variations to policy and collection methods explored, I think there was about 17 recommendations came out of the taskforce, but there  
15 was no clear or efficient manner of collecting GST at the border identified.

We would sort of add at this point that we have heard some people use excerpts from the Low Value Taskforce as a – using it as an endorsement of the border collect model, but in fact that's not the case. It did talk about  
20 a range of different models, and it spoke about what still needed to be done to actually look at those models further.

There's a range of significant factors that make GST collection at the border an untenable option. Border collect models that have operated in  
25 some other countries are historically or originally based on the business to business model. But countries with those models are now desperately looking for alternatives with the growth of B2C in recent years. There's a pattern of countries raising their duty and tax thresholds, the US has gone from \$200 US to \$800 US in late 2015, the Philippines in 2016 has gone  
30 from 10 PHP to 10,000 PHP, a significant increase. That's approximately \$200. Indonesia has raised theirs as well. So there is evidence of countries trying to avoid the border collect issues that they have with low value thresholds.

Low value thresholds and collecting models in European countries are not really comparable to Australia because of some of the arrangements that exist between EU countries. So there's a range of tax free arrangements and agreements that operate in the EU, whereas comparing that to Australia as an isolated nation would be applying the border collect model to every  
40 package that came across the border.

The B2C market is rapidly changing as well. Nowadays express couriers and Australia Post do not see recipients in many instances due to parcel locker deliveries; retail self-collect nominations by recipients;  
45 signature releases, which is "I won't be home, leave it on my doorstep";

5 deliver to alternative addresses, which could be neighbours, workplaces, et cetera. So the nature of the delivery process is changing quite dramatically. The border collect model is diametrically opposed to the objectives of e-tailers who strongly value brand value, free-flow across borders and also good customer experience.

10 Just to highlight I guess some of these points, we've got a couple of things I want to run through, and I'm going to take two examples for a start where somebody goes online and buys \$120 worth of something under the vendor collect model. So they log onto the internet, they find what it is they want to purchase, at checkout they're advised of a 10 per cent GST charge, and at that point the consumer has the option to either continue or abort the purchase. They've got full transparency of the total cost and they're making the decision based on price, choice, availability, speed, et cetera.

15 What that process does is it also helps the consumer decide between a good that may be coming from overseas with GST applied to it, versus their knowledge of a product that may be GST free in Australia. I think mouthguards, just being one example that's been mentioned. I think wheelchairs. There's a range of other things that GST doesn't apply to. The consumer, at the point of checkout, has the option of looking at what the total price is under the international purchase.

20 If we look at that under a border collect model, the consumer logs onto the internet, they find what it is they want, they purchase it. Then they end up getting contacted by the transport provider, and when they get that call, the transport provider's asking them a range of questions, "Are you a business, are you a resident, are you registered for GST or not", there's the acquisition relating to carrying on an enterprise, so there's a range of questions they go through.

25 Page 7 of the 2016 CIE report provides a good example of the steps that are involved in that process. Then they're advised of a GST amount payable, then they're also advised of a service processing fee – and I'll talk about that later, but at this point just remember that the Productivity Commission found that \$2 billion to collect \$500 million of GST is a significant cost in collecting at the border. Then the goods are actually held by the transporter at the border until payment is received from the consumer. So it's a much lower grade of customer experience for the purchaser.

30 At the Senate inquiry I also used another example that I think is well worth putting on the table. In 2014/2015 the four CAPEC members brought 8.8 million low value shipments into Australia. That's 34,000 shipments per day. If we have to collect at the border, that means we have to contact

34,000 consignees per day. This includes identifying the contact details, making phone calls, going through that process of “are you registered for GST, are you not, is this exempt, is it not, et cetera, are you a resident, are you not”. And what we would then have to do is make arrangements with them to actually collect GST that’s payable.

So just using some simple maths on that of 12 minutes per contact to do it, it would take 900 people on phones amongst the four CAPEC members to achieve this. Keeping in mind while we’re doing that 34,000, there’s another 34,000 packages arriving as well. So the border becomes clogged very, very quickly, it would be a logistical nightmare, and the numbers that I’m quoting here, the 8.8 million packages, doesn’t take into consideration what’s coming in via Australia Post, it’s just what’s coming in via CAPEC members.

Then when you add to that the communication costs, the telephony involved in doing that, solving phone numbers or email addresses not provided, missing information, incorrect et cetera, the storage costs of facilities, materials handling equipment, warehouse management systems, warehouse staff et cetera, to manage packages that are actually being held at the border waiting for payment, the abandonment of goods by consumers, the questions from consumers about why am I being charged this, I wasn’t told this, I didn’t know about this, the destruction of abandoned goods, returns to shippers. There is quite a lot of things that go into the cost of a border collect model.

Another approach that has been discussed along the way, and we’ve been involved in this since 2010, is the reduction of the low value threshold to say \$500. But we don’t see that as a viable solution due mainly to many of the purchases in the higher range, in that \$500 to \$1000 are to businesses that are GST exempt, and the CIE report of 2016 completed an analysis on real data that came from CAPEC members’ databases, and found that the average low value consignment value is \$118.40.

It also found that over 80 per cent of low value imports are actually in that below \$200 in value range. So by lowering the low value threshold to a nominal figure of say \$500 misses the intended objective of the legislation.

So in closing, there’s a range of references on the cost of the transport model to express carriers. As I already said, the Productivity Commission in 2011 found \$2 billion to collect the \$500 million of duties and taxes. The CIE report 2011 found that a conservative estimate of additional costs to express carriers is \$30 per consignment to actually collected GST at the



border. And as a mentioned earlier, the cost versus GST collected ratio is approximately 3 to 1.

5 By comparison, the CIE report of 2016 estimated that the cost of collection under the vendor collect model is approximately 10 per cent of the amount of GST collected. So it's a comparison of 300 per cent to collect at the border versus 10 per cent if it's actually done at the time of the actual purchase. So the vendor cost model is therefore a much more efficient manner of collecting GST than is the transporter model.

10 One of the concerns that has been raised, keeping in mind that a lot of the people of the overseas sellers are actually our customers as well, is that they raised their concerns about compliance with overseas vendors, and it's a valid concern. But in our opinion the Government has the ability to manage this.

15 Vendors who comply from day one are concerned about grey markets emerging where people don't sell through them and they'll sell through other means to try and avoid GST collection, but the Government has all the information it requires to identify and deal with overseas sellers that are actually avoiding GST collection remittance. CAPEC members already provide full details of every import to the Customs Integrated Cargo System, who the seller is, the address of the seller, the description of the goods, the value of the goods, the purchaser's name, the purchaser's address, and a range of other information.

20 The Government uses that information for border protection purposes, and the same data set can be used for monitoring of turnover, GST collection, remittance et cetera of overseas vendors. And the inclusion of Australia Post into the same reporting process as CAPEC members will actually result in a full data set available to ATO, regardless of who the transporter is, because the individual transporters, we can't see the big picture, but through the Integrated Cargo System, the Government can see what a vendor has moved into Australia regardless of who the transporter was.

35 So the transporter model is a clumsy, inefficient and high cost method of achieving this compliance. It would actually penalise overseas sellers who are doing the right thing, and it's a method that all other countries are actually trying to drop. So in our minds, the GST collection of low value imports into Australia, a combination of technology and policy is required, and it would appear to us that that's quite achievable in the medium to longer term. And if technology and policy are unable to achieve that required result, then, really, the GST on low value imports has to be dropped because the collection at border model is unviable due to cost disruption

and delays, poor customer experience, et cetera. That ends up our opening remarks.

5 **MS CILENTO:** Thank you. Can I just pick up the last point straight away? What specifically are you looking for in terms of technology and policy changes going forward?

10 **MR GARNER:** I think that's up to the Government to work that out. We've spoken with Treasury and ATO as to what their intentions are, and I'm not sure what they are, but I think they're determined to make this work.

**MS CILENTO:** But what do you think needs to happen from your perspective in order to make it work?

15 **MR GARNER:** From our perspective, I think if there's – the authorities will be able to see who is not complying, they will see what turnover is coming in from overseas sellers, and in our mind they have the ability to actually contact those sellers, warn them and then take whatever steps they do from there to enforce compliance. There's a range of options that have  
20 been touted I think, but I think that's for the Government to work through how it would actually do that.

**MS CILENTO:** If I can just come back to the costs of the existing – the legislated model. You said I think that your members already collect all of  
25 the information around the vendor, the details of the goods, the value of those goods, and the purchaser. So what about the existing legislation or the legislated model imposes additional costs to you and have you got an estimate of what those costs are?

30 **MR GARNER:** Under privilege we provided those costs to the Senate inquiry.

**MS CILENTO:** Can you describe the nature of the costs? Because it seems like you're collecting a lot of information already.  
35

**MR GARNER:** Already, yes. The additional information the legislation requires is the vendor registration number, the Australian Business Number of a consumer or a customer that is claiming GST exemption, and the extent, if any, to which a supply has been treated as a taxable supply, so it's three  
40 pieces of information.

To us, what that means, we operate in over 200 countries, that information has to be collected on our front end systems and it means quite a lot of changes to our automated system, and in some case manual systems,  
45 to get that data into those systems, into back end systems, to flow through

mainframe systems to actually find their way through to our systems here in Australia, which then have to be modified to actually report that information to the Integrated Cargo System for Customs.

5           So when we've spoken to Treasury and the ATO, we've been exploring ways of making that process as efficient as possible and if there's any duplication or any information that can be avoided, that's what we're looking for from an efficiency point of view. We're in the midst of those talks, there's nothing conclusive from that yet, but I would have to say that  
10       the talks are going – everyone's approaching those talks quite well and trying to find a workable solution.

**MS CILENTO:** Just in terms of data, you mentioned 8.8 million low value shipments. I missed the date on that.

15           **MR GARNER:** 2014-2015. In one year, so it's the 2014/2015 financial year.

**MR COPPEL:** Is that data in the public domain or data that you would be  
20       able to share with the Commission?

**MR GARNER:** It's actually in a report; we'll actually give you the references to those reports, the CIE reports. When the original Productivity Commission was conducted in 2011, there was a CIE report that the  
25       Productivity Commission relied on for some of its information. Then there was a later report done in 2016 when this started raising its head again to I guess get a later update on what was going on. So those numbers are out of those reports.

30           As CAPEC members we are quite guarded about what our individual company volumes are, but we provided them under privilege to a body that actually assembled those and aggregated them. So the aggregated number is there but our individual company totals aren't.

35           **MS CILENTO:** Your estimates that you spoke to earlier, the costs of adopting the border collection model would require a \$30 consignment fee or thereabouts for each parcel?

**MR GARNER:** Each consignment, yes. That's what CIE calculated and  
40       they specifically say that's a conservative amount, they think it's probably more. Once again, as individual CAPEC members, we don't talk about what it would actually be, but we're relying on what CIE's estimate it, because once again we're not prepared to do anything that could be taken as price signalling. But that \$30 is based on the information that was  
45       available to CIE.

5 **MS CILENTO:** Sorry, just going back to the current legislated model, you talked about improving – ensuring that the changes that are required for your members are implemented as effectively as possible. Will your members have the required systems in place by 1 July next year?

10 **MR GARNER:** Yes, we all know what the legislation is, we will meet it, but I guess the final solution is still in – it's still in the process of being resolved. So what the final details are is what we're currently talking through with the Australian Tax Office.

15 **MS CILENTO:** For higher value goods, so the existing above \$1000, what's the number of parcels that would come in that would be not collected or – because there'd be additional duties and things that apply to those. Do you have any sense of what sort of knock-back rate you get from people on higher value goods?

20 **MR GARNER:** I'll defer to Ben in a minute, but it's very low. The values are much higher, but the goods values are much higher as well. It is very, very low. Actually, they have to pay the tax to get their goods.

25 **MR SOMERVILLE:** Probably the biggest percentage of high value goods that would be returned or abandoned would be the ones around the \$900 mark where people are thinking it would be low value and it's thrown over through exchange rate fluctuations and can actually require a formal entry. But generally it would be quite a low percentage.

30 The other point I make on that, in terms of high values entries is a lot of people have bandied around "Well, if it's done for high values why can't we do it for low values?" It's really apples and oranges, because there are a number of additional steps, the involvement of licensed customs brokers, for instance, to classify the goods and look at free trade agreements, a number of different issues around classification and valuation which don't exist for low values now. And of course the quantum of the high value  
35 verse the low values is relevant.

**MR GARNER:** The other thing on high values too is generally they're customers that we have, we know them well.

40 **MS CILENTO:** Yes.

**MR GARNER:** They're regular importers. We know them, we have profiles set up, we know what their requirements are, what their GST status is et cetera. So quite often we don't even have to contact them, it's a fairly

seamless process. But once you go to low values, they're the customers that we actually don't have relationships with or accounts with.

**MS CILENTO:** Do you have any questions?

5

**MR COPPEL:** I just wanted to come back to the CIE report where you mentioned some of those aggregate data that were shown in that report. It would be helpful to us if we could get similar sort of information but at a more disaggregated level in terms of liability for the GST by value thresholds, so \$500, \$300 and so forth. Is that sort of information, information that you collect and have that it would be possible to share on an aggregate basis?

10

**MR GARNER:** Yes, I think what you're asking for is already in the reports. It does actually show in – if you're looking at the zero to \$1000 range, it shows it in \$100 increments.

15

**MR COPPEL:** Okay.

20

**MR GARNER:** It shows the number of shipments that fall into each of those categories, and as I think it was said before, it's 81 to 87 per cent low value shipments fall in the below \$200 bucket. So there's a range of tables that CIE, that actually show that information.

25

**MR SOMERVILLE:** The context of that was when the Government was seriously considering the lowering of the threshold, so hence, they did break it up.

30

**MS CILENTO:** Are there countries that your members are involved with where the border collection model is being applied to lower value goods now? And you mentioned that people are trying to withdraw from it, but I'm interested in if you reflect on the cost per consignment that you've talked about, is that sort of consistent with the costs that are experienced in other situations now?

35

**MR GARNER:** I don't know about you, Ben. We don't actually have the actual dollars, and some of those jurisdictions are much lower cost countries than what Australia is as well, from a labour perspective. But what we do know is that virtually every country that has to collect at the border is struggling, they go and knock on the door or ring someone up and say, you owe us 10 or \$15 or something, and actually getting that money is a very lengthy process. So it is a combination of cost, but it's also a combination of customer experience and those other costs that we said flow into warehousing, handling goods that have been held, et cetera.

40

45

**MR COPPEL:** Where there are jurisdictions with this sort of arrangement or similar high compliance costs, how are those costs recuperated, through a separate charge?

5 **MR GARNER:** I don't have the details of what's happening in all those other jurisdictions specifically. I don't know if we have anything, I don't know whether anything was covered in the original Productivity Commission hearing, but we really have focused on what it costs from an Australia point of view. As I said, because some of the costs here are quite  
10 expensive compared to some of the other jurisdictions.

**MR SOMERVILLE:** Yes, I guess we need to be careful, for ACCC reasons, talking specifically DHL or FedEx examples, but it would be true to say that there are some struggles based around the point that Kim made,  
15 that a relationship on B2C is essentially with the shipper, the overseas - the vendor, and it's not with the hundreds of consumers. So because they are non-account holders, then it's - if they were account holders, to be frank, it wouldn't be as big an issue for us because we'd be able to put those on account and keep the goods moving across the border.

20 But the fact is that we don't know them from Adam, we have to contact them and establish whether they'll pay the charges and we'll recoup those before delivery. And I can say that I've spoken to colleagues in other countries with those very same challenges.

25 **MS CILENTO:** It would be useful, if possible, to get a sense of some of the issues that you've talked about around abandonment of goods and delays in delivery and it's always useful to have evidence and we can take into consideration the different circumstances of the country that's involved  
30 or whatever. But it does help to have a bit of meat on the bones, if you like.

**MR GARNER:** We'll just take that on notice and we'll provide what we can.

35 **MS CILENTO:** Yes.

**MR GARNER:** The other thing that's probably worth thinking through as well, the original B2B model as a generality, people pay more for their freight on business to business, high value goods, than they do on less  
40 quality commerce, low value goods. So we've even heard comments that the carriers just should be able to pick up the low values of GST out of what they're already charging, but there's just not that much. The low value goods, where average cost of \$118, they're travelling at low freight rates, and there's a lot of it. So some of the things that - some of the concepts

that may have applied 10, 15 years ago in a B2B world don't translate into a B2C world.

5 **MS CILENTO:** Did your commercial-in-confidence submissions to the Senate touch on margins at all?

**MR GARNER:** No.

10 **MR COPPEL:** With the model proposed by the parcel processing taskforce, they had a number of complementary measures that would apply to trusted suppliers. Do you have any views or perspectives on whether some of those aspects could carry through to the legislated model in terms of improving the efficiency of collection?

15 **MR SOMERVILLE:** Yes, I think one of the key challenges would be around determining who would be – if there was a red and a green lane, and a premium vendors and the rest, would be to determine who was who when that comes in. So we would get a freighter flight, one flight could have eight to 10,000 individual shipments on it, so then having to sift  
20 through those to go through.

Some of the taskforce's suggestions have merit in their principles, one of them for example was to try and move goods out of the border, the congestion point, to another facility to break that nexus of payment and  
25 release. But unfortunately, if anything, it probably added cost because it put another step in the chain. So there were legitimate areas that they were looking to address in a number of their recommendations, but each one of those would be carefully worked through and addressed each one on their merits.

30 **MR GARNER:** But there was no silver bullet that came out of the low value taskforce as to a way of doing this. Each method had its – I think it was really looking at what's involved, what are the pros, what are the cons, and there was nothing came out of it, whether it be one or a range. It  
35 actually said this is a recommendation on how it should proceed.

If I may, just one other point I was going to make too, and I'm not sure I made it on the way through, but where people talk about the hybrid model, once again – which is a combination of the vendor collect plus collection at  
40 the border, at the end of the day you've still got a three to one cost ratio – cost to collection ratio – of border collect, regardless of whether it's half or quarter or three-quarters of what's coming into the country.

45 Based on Treasury's estimates that they would get, say, 54 per cent compliance under the vendor collect model, under our scenario that still

leaves about 17,000 packages a day that would be border collect. So the numbers are horrendous. And that's just us. Add Australia Post to that. The logistics of border collect is just – it's our opinion if any Government put in border collection in Australia; they would have to retreat from it quite quickly because of the disruption that it would cause and the backlash that it would cause.

Which is why we lean towards the vendor collect model, but then the use of technology and policy to actually I guess ensure that that 54 per cent turns into a much higher percentage. The data is there, the data and the technology is there, it's really a matter of working through the policy and enforcing that side of it.

**MR COPPEL:** It's been put to us that you can't enforce in other jurisdictions Australian laws, so what sort of measures would you use to elevate that rate of compliance?

**MR GARNER:** Two things, and one question that I don't have the answer for is we can do it for border protection so why can't we do it for revenue, would be one question I would ask. I don't know the answer for it. The other would be there's a lot of other countries that are looking at what Australia's doing and are looking at the vendor collect model as well. So I think as time progresses, somehow people are going to find a way through this to actually make this work as efficiently and effectively as possible. And we mentioned 200 countries before, but I think if you ended up with 15 or 20 countries that got behind how to make this work, I think it would actually – it would help solve the GST issue that virtually every country's having as e-commerce or B2C increases.

**MR COPPEL:** You mentioned 15 or 20 countries, presumably because 15 or 20 largest countries in terms of e-commerce would account for a large percentage of transactions. Do you know what that order of magnitude is?

**MR GARNER:** Yes, I don't. There would be data that would actually support that, I don't have it available. But it's really countries that get together, the G20 OECD countries that actually are working on trying to resolve this same issue, the same issue that Australia's trying to resolve, there's quite a lot of other streams that are trying to resolve the same issue.

**MS CILENTO:** I don't have any other questions, thank you very much.

**MR COPPEL:** Thank you.

**MR GARNER:** Okay, thank you.



**MS CILENTO:** You said you are putting a submission in?

**MR GARNER:** Yes.

5 **MS CILENTO:** We'll look forward to that, thank you.

**MR GARNER:** It is August 30, isn't it?

10 **MS CILENTO:** Yes.

**MR GARNER:** I notice you said 30th the other day, just making sure I've got the month right.

15 **MS CILENTO:** That is correct. We've said to everyone of course, the sooner it gets in the more time the team has to reflect on it. Thank you.

**MR GARNER:** Thank you.

20 **MS CILENTO:** Welcome and thank you as well, if you wouldn't mind introducing yourselves and who you're with, and then opening statements, thank you.

25 **MS FOSTER:** Absolutely, Kristen Foster, Director of Government Relations for Australia, New Zealand and Japan for eBay.

**MR HUDSON:** Good morning, James Hudson, Director of Corporate Affairs for Alibaba Group Australia and New Zealand.

30 **MS STEEN:** Good morning, I'm Angela Steen representing Etsy; I'm our Director for Advocacy and Public Policy.

**MS CILENTO:** Over to you.

35 **MS FOSTER:** Thanks, Commissioners. Thank you for the opportunity to appear today. We met earlier this month in Canberra, and I'm very conscious that you've seen our earlier submissions so I won't cover that ground again, but I would like to make a short statement on behalf of eBay.

40 EBay is an online third party marketplace, just like Alibaba and Etsy, who are seated with us here today. Our companies are third party online marketplaces; this means we are spaces where businesses and individuals can create online shopfronts. It is the sellers who own, control, warehouse price and distribute their products. Our businesses do not.

Global marketplaces like eBay let consumers and sellers live in Australia's remote and sparsely populated regional areas but buy and sell in a marketplace with hundreds of millions of potential buyers. The language of the legislation refers to electronic distribution platforms, and that's not  
5 us. We are also not a supplier. For the Productivity Commission we have commissioned a comprehensive economic analysis of the legislated vendor collection model, which we were hoping to have today, but it is extremely comprehensive, and it's a couple of days away.

10 It's likely that this analysis will form our joint 3P company submission. The paper has been written by the Aegis Consulting Group's Mr Vish Beri and the Honourable Dr Peter Hendy, both of them are experienced economic and trade policy analysts with experience in Treasury and the Australian Government.

15 It examines the nature of online retailing and the important differences in marketplace models, why the digital legislation known as the Netflix Tax does not work for physical low value goods, and why some vendors hold the money and the information and why we do not, because we are not the  
20 vendor. It assesses the trade impacts and equivalency of the vendor model with other jurisdictions, implications of the General Agreement on Tariffs and Trade 1994 and whether other nations will respond in kind to what is essentially a non-tariff barrier.

25 It's an unprecedented and dangerous move by this Government. It's worth noting that the first group to give evidence to this inquiry was the Australian Retailers Association. They don't have to make the current vendor model work; in fact they clearly didn't think it would. They outlined their support for any model that would disadvantage foreign sales, even if  
30 the revenue was wiped out by the cost of collection. This could be seen globally as protectionism, damaging to Australia's productivity, Australian consumer choice, and Australia's innovative local small businesses buying and selling worldwide online.

35 The Aegis consulting analysis compares the regulatory efficiency of the vendor model with the border transporter model recommended by the Low Value Parcel Processing Taskforce. The legislated model is demonstrably inferior from a regulatory efficiency, trade and productivity perspective, not to mention the practicalities. The paper makes the case that  
40 the ATO is viewing marketplaces as importers or last resort. Government's own budgetary forecast demonstrates that overseas fellow compliance is expected to be almost nil, so the measure relies almost totally on a handful of marketplaces.

5 Aegis Consulting Group's independent assessment has found a strong likelihood that the cost of the complying for our businesses may outweigh the benefit. In a context of growing global trade, as a small market proposing to erect a blunt online import barrier, Australia risks becoming an irrelevant market for global businesses. Add to that, if you're a small business seller in another market, you won't even need to meet the \$75,000 threshold before you start charging the GST to Australian consumers. It will be from your very first sale if you sell via a marketplace. This creates a competitive disadvantage and a market distortion for small businesses globally and will have the same effect if other countries follow Australia's lead, thereby disadvantaging our Australian small businesses operating on our platforms.

15 The study also looks at the trade impacts and comparative efficiency impacts of platforms to Australian businesses and consumers. Indeed, it finds that there is a productivity benefit to Australia of our 3P marketplaces. Plus there will be negative impacts for Australian consumers. One in two Australians are connected to sellers via eBay's online marketplace, there were 170 million active buyers globally in the past 12 months on eBay. 20 There will be less choice and higher prices as a result of less competition in the market if marketplaces are forced to stop imports due to this unworkable legislation.

25 For the Productivity Commission, eBay commissioned JWS Research from 10 to 14 August 2017 to conduct a nationwide opinion poll of 1000 Australians on the GST low value goods legislation, and that was because we were looking at the terms of reference for today's inquiry. The key findings are as follows: 53 per cent of Australians request that the Government revisit the threshold; only one-fifth of Australians support the current legislated vendor collection model, that leaves a lot out of the picture; nearly half of Australians agree the current vendor model won't work because there are currently no practical way of forcing overseas businesses to abide by Australia's GST law.

35 When it comes to making choices about purchasing goods, Australians strongly value cheapest prices, coming in at 87 per cent, and a wide selection at 81 per cent. There is definitely a perception that these are also the most likely casualties once the GST low value threshold is removed. The Aegis consulting paper also poses questions for Australia Post, 40 particularly about its \$900 million dollar a year estimate, how it's arrived at and whether it's based on stopping every parcel at the border, which no one is proposing.

45 Finally, if this legislation results in the most trusted marketplaces removing foreign sellers and stopping imports, there is a productivity loss

to Australia and no revenue is collected. We believe this is a lose-lose for everyone. I look forward to providing the Commission with our industry paper, when it's completed, shortly, and I'm really happy to take questions today. Thank you.

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**MS CILENTO:** Thank you. James?

**MR HUDSON:** On behalf of Alibaba Group I would like to thank the Commission for the opportunity to participate in this inquiry into GST on low value import goods. I would like to start by stating that the objective of the measures to provide a level playing field for Australian retailers is one Alibaba Group fully supports. We are here to explain the complications and detrimental impacts on Australian consumers and businesses that will occur if electronic distribution platforms, as they're defined in the Bill, are forced to collect the tax as per the current legislation.

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We are also here to encourage the Commission to interrogate all potential collection models, as failure to do so will leave question marks over the decision making processes behind this model it eventually chooses.

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Before I expand on this it's important to understand Alibaba Group's business in Australia. We provide the fundamental technology to help merchants and brands to leverage the internet to engage with hundreds of millions of consumers globally. In the case of the current bill, it will impact AliExpress, our business to consumer platform that enables overseas merchants and brands to sell to Australian consumers.

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For our cross border sales to Australia, AliExpress does not set the price of the goods, it is not the seller of the goods, and does not dictate the physical fulfilment of the goods. It simply provides the ability for sellers to autonomously list their goods for sale to buyers against our platform terms and conditions. This is commonly known as the 3P model; this model has driven China's tremendous growth in online shopping, with Australian businesses now having access to more than 529 million monthly mobile users through Alibaba's retail marketplaces in China.

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3P platforms give small businesses a fighting chance to succeed in other markets. They offer a trusted and transparent marketplace which buyers and sellers can rely on, help business owners understand the market through customer data, and reduces paperwork. It's critical to remember that the 3P model is leveraged by many Australian merchants and brands that sell into China, through our platforms like Tmall Global, which is essentially AliExpress selling into China.

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5 This is the platform used by the likes of Swisse, Woolworths, Chemist Warehouse and more than 1300 other Australian brands, many of which have experienced tremendous success in selling high quality Australian products to eager Chinese customers. In short, damage to the 3P model in Australia will be felt worldwide. It is naïve to think that implementing a policy that will severely damage international businesses will not be reciprocated and felt by Australian exporters.

10 Our joint submission with eBay and Etsy will articulate impacts of the legislation on Australian businesses and consumers, but for the purposes of today I want to focus on three key points. The first is compliance and enforcement. The measures introduce distortions between EDPs that comply and those that don't. Given the time and cost associated with complying, coupled with there being no formal solution to identify goods on arrival at the border, modelling indicates that approximately 75 per cent of goods by value imported into Australia will continue to go untaxed in the first year. Credible platforms like AliExpress and other 3P market players such as eBay and Etsy are key for Australian consumers. Through their reputation and track record of accountability, they provide the confidence consumers need when sourcing from halfway across the world.

25 The second point I want to make today relates to the negative impacts of the Bill which will be felt by local small businesses and local consumers. As just outlined, the complexities of compliance will result in many low value goods continuing to be imported into Australia without being subject to GST; in effect this does not level the playing field for Australian businesses at all. Australian businesses will continue to be exposed to GST-free products because of non-compliant businesses.

30 For consumers, the proposed measures will reduce access to goods and increase costs. It's a reality that many Australians shop internationally to access a wide variety of goods that are not sold through Australian retailers. Given the complexity of compliance, it wouldn't be surprising if overseas vendors stop selling and shipping into Australia as they do not have the resources to comply. Those that do attempt to comply will be forced to increase prices or charge consumers an administration fee to bear the cost of compliance.

40 In fact, modelling commissioned by eBay, Etsy and Alibaba suggests that foreign goods will increase by about 9 per cent under the proposed model, a significant hit to the already rising cost of living in Australia. This equates to consumer welfare being \$482 million lower between 2017 and 2020. It is our view that should consumer choice be impacted there will also be significant public backlash.

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5 The third point I want to make today is about the ramifications of the proposed measures on global trade. This reform to Australia's GST is a significant world first and could be viewed internationally as a non-tariff barrier to free trade. This is particularly the case due to the \$75,000 threshold applying to businesses selling through a marketplace but not selling on their own standalone websites.

10 In response there is a risk that other countries may implement reciprocal arrangements against Australian businesses small and large who export consumer goods. One could only imagine the adverse impacts this would have for the 55,000 Australian exporters on Alibaba.com and 1300 Australian brands on Tmall and Tmall Global if other key export markets responded with a similar model.

15 It's a reality that several global jurisdictions are now exploring options for how to proceed with taxing imports, and we will be watching these deliberations closely. Australia does not want to be the trigger that compromises the momentum made in global trade over the last decade.

20 In conclusion, the enforcement of the current model is unworkable, has low predicted compliance and is contrary to good international tax policy. We strongly recommend that the Commission further interrogate a logistics model. The logistics sector is a competitive and growing sector that will not be stopped in its tracks by this legislation and has the potential to collect significantly more tax than the current model. We also encourage the Commission to adopt a sustainable and workable model that's aligned to other jurisdictions. Thank you.

30 **MS CILENTO:** Thanks, James.

35 **MS STEEN:** Thank you, Commissioners, for the opportunity to speak here today on behalf of Etsy. Let me explain to you a little bit about what Etsy is. So Etsy.com is a global marketplace that enables millions of people around the world to connect, both online and offline, to make, sell and buy unique goods. Etsy has 1.8 million active sellers, 30.5 million active buyers, and there are currently over 45 million items for sale on the Etsy.com platform.

40 Most Etsy sellers are women, they are on average younger than the typical business owner, and more than half are operating businesses for the first time using Etsy. Many live in rural communities. Our sellers are predominantly one or two person businesses, and in many cases they are operating from their home or from a shared studio space. For the majority of our sellers, their creative business supplements income from other jobs

our sources and, in doing so, supports local manufacturing and retail partners.

5 Our Australian Etsy seller community reflects these global trends. Ninety per cent of our Australian sellers are women, and for 29 per cent, their Etsy shop is their sole occupation. Most of our Australian sellers manage every part of their business themselves. The vast majority of these sellers work alone, from home, and most of our handmade sellers are self-taught.

10 Etsy enables these sellers to get their creative business off the ground without the barriers traditionally associated with launching a business. For 55 per cent of our Australian sellers, Etsy was the first place they ever sold their goods, and that figure actually rises to 68 per cent among those under 15 35.

As we have stated in our testimony to the Senate, and along with my colleagues at eBay and Alibaba in our submissions to Government, we have very serious concerns about the implementation of this Bill, particularly 20 because of the proposed collection model, which will oblige us to collect and remit GST on behalf of this international seller community, despite the fact that we do not own, hold or warehouse any of these goods.

25 As Alibaba has already stated, we worry about the implications for other Governments to adopt a similar system, imposing the same rules on our Australian seller community. Each member of this community of sellers, which spans the breadth of the country, has the capacity to be a global exporter from the comfort of their kitchen table. With the Etsy model anyone, anywhere at any time can create something beautiful, open a store front on Etsy.com and have sold a product to India, Indonesia or Iceland 30 within minutes of setting themselves up online. We believe that Governments should be supporting this type of entrepreneurship rather than penalising it, and our sellers will be penalised.

35 Consider for example one of my favourite sellers, an American woman living in Japan who makes beautiful, intricate hats wrapped in Kimono silks. Her designs are bespoke, each one is unique and she will make to order based upon a customer's unique taste and style. She may sell only three hats into Australia next year, let's say about \$300 worth of stock, 40 falling far short of the \$75,000 threshold that would require her to register and remit GST on her sales. However, under the current proposal, Etsy would be forced to apply this 10 per cent GST charge to each one of her sales, increasing the price for the smallest player in the market.

In contrast, a Japanese hat retailer for example, who operates their own website out of Japan, but makes a hundred times those sales into Australia, would be exempt from this tax. This example does not reflect what would happen to a minority of our sellers under this law; it reflects what will  
5 happen to virtually all of our sellers. It also reflects what could happen to a similar Australian seller if other countries adopt similar legislation.

Etsy sellers are predominantly microbusinesses in many instances running their Etsy shops as creative outlets that provide essential  
10 supplemental income. The smaller retailer, selling the 600 hats into Australia a year using their own website could potentially afford to lose one or two of these sales owing to price competition. But for our Japanese Etsy seller who makes – the bespoke Kimono hat maker, losing one or two sales could be the difference in staying afloat or not, and a 10 per cent price  
15 difference in a global competitive market could be detrimental.

For many of our sellers, Etsy overrides the traditional barriers of entry to setting up an online business, like requiring the skills to build and develop a website, the budget to develop and market a brand online, and the PR and  
20 marketing to attract and retain customers. The capacities and skillsets that the small online retailer would have.

As the legislation currently treats platforms like Etsy as one individual seller, abrogating the sales of all of our international sellers into one, and  
25 requiring us as a platform to register for the collection of GST, we've no option but to be forced to apply this 10 per cent GST charge onto every individual seller's product, even if this is the first sale they ever make into Australia.

Etsy sellers will be penalised for choosing to use a platform like ours, and larger sellers with their own websites, or even non-compliant and potentially less reputable platforms, will be advantaged. We urge you to consider the implications of this law on global trade, and thank you for the  
30 time today.

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**MS CILENTO:** Thank you. Angela, could I just go to your little example. Why would the Japanese firm be exempt?

**MS STEEN:** Because if they, let's say only sell \$30,000 worth of hats into  
40 Australia, they wouldn't reach the 75,000 threshold, so yes, they wouldn't have to register.

**MS CILENTO:** Yes, okay. I'll come back on that. It would be interesting, I think, if you – and I'm not sure who wants to answer this – eBay has  
45 already had the question from me, but I'll ask it again. I'm interested in



how your platforms make money, what the revenue model is, and I'll jump ahead and ask the specific question which is it is not feasible to think that if you have a fee for service charge that applies, that you could apply the 10 per cent GST as that and then remit that to the ATO, and I'd be interested in understanding the feasibility of that and also what the compliance costs or burdens would be associated with that.

**MR HUDSON:** So one of the challenges for us is Alibaba Group has more than 40 different businesses in the group. Different platforms have different revenue models, so for example AliExpress, which I mentioned, does take a percentage of the sale. They also sell different advertising and resource positions to merchants, however, our Taobao platform, which also has a Chinese community who use that in Australia, that's purely an advertising model. So merchants essentially buy advertising or sell through different affiliate programs and pay a percentage for Alibaba to help facilitate different influences and opinion leaders to actually sell those products.

**MS FOSTER:** I think from eBay's perspective, as we've talked previously, Commissioner, we have an advertisement for free upfront and then at the end of the successful sale we take a commission on the final value fee. But the final value fee is not the same as the product price. I think the other clear distinct that needs to be made here as well is we do not intermediate the payments at any point. So the payment actually goes directly from the buyer to the seller and the GST is actually charged on the buyer. So there's a problem with the flow of where the payment actually occurs.

**MS CILENTO:** But if you had visibility on what the value of the sale was, that's – you can charge the vendor and the vendor can choose to charge the purchaser or not, can't they?

**MR HUDSON:** I think in the case of Taobao, the vendor is setting the pricing and they're buying advertising and resource positions, as I mentioned, we're not setting the price or taking a clip of the ticket on that particular platform.

**MS FOSTER:** We don't even necessarily know if the buyer and the seller have done at a discount or an offline transaction as well, so we only see that final value fee, we don't necessarily know what that product price is as part of that. As part of the final value fee you have shipping, handling and other bundling of costs in there. And my understanding of GST is it's a value added tax and it's actually on the product not on all these other aspects that consumers might get from buying on a marketplace through a seller.

5 **MS CILENTO:** I'd be interested too in how significant the Australian marketplace is for your businesses, so the amount of business you do in Australia, what proportion of that relates to imported transactions or imports of goods. You can take this as a question on notice if you like, but also the proportion of Australian exporters using your platforms.

10 **MR HUDSON:** So for Alibaba Group we export about eight or nine times what we import through our B2C platforms; that mostly goes to China, but also some of our other e-commerce platforms, such as Lazada, which is South East Asia's largest e-commerce platform, and also through an affiliate company called Paytm in India. We have more than 55,000 Australian exporters who use Alibaba.com, and as I mentioned in my opening remarks, we have another 1300 Australian brands who use Tmall and Tmall Global, our B2C platforms.

15 Australia is a small market for AliExpress, we established our office in February because we're very focused on Australia as a merchant market connecting them with those retail opportunities in China and also through some of our tourism and payment platforms also. For us, we have been active through the process after the draft legislation came out, because we see this as quite a dangerous model globally and we haven't been involved in this to particularly defend our Australian position on imports but more so for the repercussions in other markets that are particularly important to us.

25 **MS CILENTO:** Is it a dangerous model if other countries do it?

**MR HUDSON:** We have concerns if other countries do this also. We do.

30 **MS FOSTER:** I think just on the if other countries do it point, Australia is the first mover on this. Our viewpoint is that trade is global, it's a global trade world, and we would much prefer to see any moves made on these types of issues done at the global level.

35 **MS CILENTO:** James, just coming back to the amount of Australian exporters using your platforms, my presumption would be that most of those a larger players. I've heard stories in other inquiries around the difficulty of supplying into China, simply because the scale with the market of so large, the volume of production, to be able to be interesting in that market far exceeds that of many local producers.

40 **MR HUDSON:** I mean, Alibaba Group's mission is to make it easier to do business anywhere. There's no doubt that there are challenges in the China market for exporters that might not apply to other markets, however, for Alibaba.com, which is a global B2B, so not just to China, so it's global wholesale, the vast majority of those 55,000 aren't SMEs. For our B2C

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platforms, Tmall, and Tmall Global, of those 1300 brands a lot of them are larger brands. However, there are what we call umbrella stalls operated by organisations like Australia Post, Woolworths, Chemist Warehouse – Chemist Warehouse is actually the largest cross-border store in the world on our platform – and they stock a whole range of different SME that they generally purchase wholesale or sell on a consignment basis.

**MS STEEN:** In terms of our side, just because I think it's an interesting initial point, 82 per cent of our sellers in Australia are businesses of one and 97 per cent are operating out of their homes. I mean, it's really, really micro.

**MS CILENTO:** Yes. How significant is that export market for you – how significant is the Australian market for Etsy?

**MS STEEN:** Australia is absolutely one of our key international markets. We unfortunately don't break down our numbers, but of our 1.8 million sellers, 33 per cent of those are located outside of the US, and what you find typically is that a seller will come onto Etsy precisely because they have access to that US market, they are exporting to the market which is obviously the most mature from an Etsy point of view, which is currently the US. So the export market is hugely important for us.

**MS CILENTO:** So we've got the legislated model, a start date of 1 July next year, what can we expect from your platforms when the model comes into effect if it is as it is today? What is the sort of expected response from your platforms in the context of Australian low value imported goods?

**MS FOSTER:** I think it's a very difficult question for our businesses to address because the way that our business models are at the present time does not allow for that collection, because of not actually holding the goods, not having warehouses, not physically seeing the goods, not processing the transaction, et cetera.

So it is a very difficult question. I would revert back to the comments that we made at the Senate inquiry around that real consideration of stopping imports from 1 July 2018. That's something that we don't take lightly, if we could come up with a way to comply with this tomorrow that would be excellent, but at the moment what we're being asked to do is almost become a 1P marketplace, which we're not in this market at the moment.

**MR HUDSON:** From Alibaba's perspective, our initial assessment, we have big questions around whether this is technically possible for us. From a 3P marketplace perspective, Australia's not a big market for us and the

ability for us to comply, which we've already assessed as being very, very difficult, if not impossible, shutting down the marketplace is also a reality for us.

5        From a vendor perspective, and the 150,000 merchants who use our platform, as to how they would respond also. There's also a big question mark over that for those merchants selling through the AliExpress platform, whether they're willing to register for GST and remit business activity statements to what is a very small market, when they're selling to more than  
10       200 countries globally. I also have big questions around whether they would be willing to do that or whether they would just take out Australia as a jurisdiction they sell to.

**MS FOSTER:** I think I would just add from an eBay perspective we  
15       comply with the tax laws of all the jurisdictions where we operate, so as a result, the way for us to comply with this is to switch off those foreign sellers. I do have to be clear though, that it doesn't mean that we would be abandoning the Australian market and eBay.com.au and the 30,000 businesses that we support here locally, but that is the reality. And it comes  
20       back to the legislation is trying to depict us as something that we're not, it's trying to depict us as a seller and a vendor, which we're not.

**MS CILENTO:** Angela, I'll let you answer that question, but can I just follow up on one quick question here? So eBay operating in the US market,  
25       how does it – it just applies GST on its domestic transactions, how does that work in the US for you?

**MS FOSTER:** So it's the same as here, so the seller actually has to collect and remit. So it's exactly the same as an Australian seller on eBay.com.au.  
30       We don't collect and remit on their behalf; they collect and remit to the ATO direct here.

**MS CILENTO:** Yes.

35       **MS STEEN:** And just to underline it, it's unprecedented, this would be the first time in any jurisdiction that we would be required to collect and remit GST on behalf of our sellers, on physical goods. So it's unprecedented for us. That leads back to the earlier question about what will we do. We'd consider the scale and complexity of what this legislation is tasking us with  
40       to build a tool from scratch.

We are the smallest platform represented here, but certainly not the smallest e-commerce company operating in the world today. We're lucky that we actually can have a voice and come here and explain to you about  
45       the complexities of it and it's going to be a huge struggle for us, it's going

to have to be a business decision about the investment cost versus the cost and size of our market, and that's the struggle that we'll face as Etsy, but if you think about even smaller platforms who aren't here who aren't going to be represented, it's building something like this that really the complexity of it is an enormous task for us.

Just quickly to go back to the earlier question about how we make money. Etsy's real focus is to ensure that any type of seller can come on board and sell literally from their kitchen table without having to go and get a loan, without having to build their own website, so we try to ensure that the costs are kept as low as possible. We have a listing fee of 20 cents per item, so let's say you have 10 items – and typically our sellers wouldn't have a huge range of items because they are bespoke products. So let's say you start with 10 items you list for 20 cents, then we just take 3.5 per cent of that transaction.

So comparative to other e-commerce players that is quite low, and the whole reason for that is that we want most of the money to go back into the hands of the creators. The reality is, is that if we have to start thinking about building this type of tool that requires obviously a significant investment; we don't want to have to drive up our costs for our sellers. But that may be the only option that we're left with.

**MS FOSTER:** I think just going back on your question, Commission, just around how important is the Australian market to us. From an eBay perspective it's very significant. From our perspective as well, we have 7.7 million Australian buyers, and if we actually look at the breakdown of the Australian population, 35 per cent of that is actually from regional Australia. So I think that from a productivity point of view and from an efficiency point of view, a choice and competition point of view, there's also that angle of how will this impact regional Australians who don't have access to traditional brick and mortar retailers. And we certainly do have a very strong following there, particularly in regional Victoria where we're sitting today.

**MR COPPEL:** Can I just ask a follow up question on other jurisdictions, and you gave the example of the United States, and you've also pointed out the legislated model is unique, but there are other models where platforms do help facilitate collection of sales tax or GST, I have in mind the EU. How does it differ there and is it a model that is one that you can work with? And what is it that distinguishes it that makes it more of a feasible model and more of an efficient model, if that is the case?

**MS STEEN:** Again, to underline, this piece of legislation is the first time that any type of legislation has been introduced that would place the task on

us to collect this GST. There is no other country or other jurisdiction in the world that has this model. Currently the EU are looking to change their VAT laws equally, because they're also trying to keep pace with the changing e-commerce market and they are looking to bring in a number of – they're changing, for example, the place of supply rules and things like this, that will come into force from 2018 on.

But whilst we have similar question there, we're in discussion with stakeholders there, our message is the same, we need to have a multilateral solution, it needs to not be just one country going ahead on its own, we need to follow the – with the process there are discussions happening at a much higher level around getting this right and then ensuring that it's the most workable model, not only for us but really for our sellers who are the most important people in this whole discussion. Because at the end of the day it's about ensuring that they have a livelihood and they have a sale.

**MR COPPEL:** Where are these discussions taking place, who's leading them?

**MS STEEN:** So there's currently a body of legislation called the VAT Action Plan taking place, it was drafted by the European Commission, it's now actually at the European Council level, so it's the member states who are discussing it, so that predominantly takes place in Brussels, but also in the national capitals. So all 28 national capitals are currently discussing the new VAT system and making sure that that VAT system is up to speed for the modern e-commerce environment equally.

**MS FOSTER:** There's also the HMRC model, which we did outline as an industry group in our submissions to the Senate inquiry. And that model, basically the marketplace, if the seller is not collecting and remitting the VAT to HMRC, then it's up to the marketplace to pull that seller off the platform so they can't trade any more, and then ultimately the platform is held liable if that payment is not made by the seller. So there are other jurisdictions where there are sort of permutations of the model that's being proposed in Australia.

But I think just to add to what Angela's saying, there's no market at the moment or jurisdiction at the moment that is looking at making a 3P marketplace and defining that 3P marketplace as a vendor or a seller, and that's where this legislation gets tripped up a little bit, because we don't physically have those products. In respect we're very similar to a Westfield shopping mall, we just happen to be online.

**MS CILENTO:** In terms of alternative models, you mentioned a transporter model and a border model, but would you support a vendor model that treated you differently?

5 **MS FOSTER:** I think a vendor model that is a seller model, that doesn't require us to do something that our businesses can't do, would be something that could be considered. And that's similar to the HMRC model.

10 **MR HUDSON:** Alibaba Group also has a stake in a logistics company called TinyOwl, it's an affiliate company where we're a minority stakeholder and there's a consortia of other Chinese logistics companies are a part of that organisation. It's a big data company that uses data from across the platforms to help warehouse and consolidate products, and  
15 TinyOwl has been active in working with the Chinese Government as a logistics provider to help move products into bonded warehouses, particularly larger shipments, so tax can be paid. Given we have a stake in a logistics company, our position is still that doing this at the border or a logistics model is preferable to a vendor model, because we've seen this work in other jurisdictions.

20 **MS CILENTO:** James, I think you would have heard the previous presenters who certainly outlined some significant costs per consignment, describing it as a logistical nightmare in terms of the volume of packages that are going to be shipped every day and the requirements that would be  
25 involved with that. Have you got a view on what you, Alibaba, would see as the likely sort of cost implications of that model as distinct from the legislated model?

30 **MR HUDSON:** Look, I don't have those figures to hand but I'm happy to take that on notice. I do acknowledge that there is a compliance cost for logistics companies, but I don't have those figures to hand.

35 **MS CILENTO:** If you wouldn't mind sort of, if that's a question on notice, and also based on your experiences elsewhere in the world with lower value goods, these issues around the processing time, the abandonment rate, potential implications for customers, any insights that you can provide from Alibaba's experience would be quite helpful in that respect.

40 **MR HUDSON:** Happy to put something together.

45 **MS FOSTER:** I think it would also be worth noting, we have had representations made to us from various organisations, local organisations, that are coming up with new tech solutions too that could assist with a logistics model for example, you know, various sort of barcoding ways that they link in with the universal coastal system. So that's something as well

that was not considered by the Government, but we're very aware that there is technology that is out there and does exist, and we're aware of at least one government that is considering that in their current deliberations too.

5     **MS CILENTO:** Angela, sorry, I jumped in before you had a chance to respond on vendor versus alternative.

10     **MS STEEN:** Yes, I don't think we have anything useful or additional to add actually, I think you guys have summed it up perfectly.

10     **MS CILENTO:** Then if I can just jump back into what other governments are considering, are any of you aware of consideration being given to the other intermediary channel, which is the payment system?

15     **MR HUDSON:** I'm aware that the Low Value Processing Taskforce looked at the payment system; I'm not involved in any discussions in other jurisdictions around payment systems. But, Kristen?

20     **MS FOSTER:** My understanding is that payment systems have been considered, financial intermediaries have been considered in the past, and for very similar reasons as to why we can't remit and collect and remit, they've been deemed to potentially not hold enough information. So we have put together a table that could be of use, that I'm happy to table after this, that actually looks at the information that for example we're in possession of versus – because we know that the Government basically lifted the Netflix Tax and put it across to the tangible world.

25     So we've got, you know, how does the Netflix Tax work for those companies that are caught up in the Netflix Tax? What information does the 3P marketplace hold, what information do other marketplaces hold, what information do payment intermediaries hold, what information do logistics companies hold? And I have to say, out of all of those, the ones that come in the highest are obviously the Google Plays, the iTunes et cetera, under Netflix, come in very high because they have most of the information.

30     Sellers who have their own online shop or retailers in a shopping mall come up very high as well. Very low in the picture are 3P marketplaces, payment financial intermediaries, logistics companies probably satisfy around 50 per cent, and then you have other marketplaces that physically are an online retailer for all intents and purposes, for about the same as those who are captured by the Netflix Tax.

40     **MR COPPEL:** Can you explain to me the relationship between the 3P marketplace and the payment system that sits in that marketplace and does



it sit to the side of it, and the relationship between the payment system, the control that you may have of that or the inference you may have over that with respect to the 3P marketplaces? I'm not quite sure how it works.

5     **MR HUDSON:** For Alibaba Group, when we listed in 2014, the payments arm of our business was split off from the group and another company was formed called Ant Financial, and the largest product under Ant Financial is Alipay. Alipay, it's a completely different company, but Alibaba Group has a minority stake in Ant Financial. Essentially we work with them as a  
10     supplier to operate a payment platform on our 3P marketplaces.

**MS STEEN:** Etsy sellers when they set up their shop they can choose from a number of different payment solutions. And they in many instances can be locally specifically, but it's of course the big ones that everyone knows,  
15     you can have PayPal integrated onto your shop, you can use a number of different card options. So it's based on a case by case basis on what seller, what type of payments platform the seller wants to integrate into their own personal store.

20     **MS FOSTER:** I'd have to say that's fairly aligned with eBay, so the sellers choose which payment method is appropriate for them. Obviously PayPal was once a company of eBay Inc and is no longer, so yes, the payment systems, payment companies are very separate to our entities.

25     **MS STEEN:** I think that goes back through to the key point here about why we're really saying that we can't do this, because it is guesswork, that when we're looking at the products that are being sold. Because we enable these sellers to have their own shop within our ecosystem, but they can choose – so much of what they can choose is bespoke and up to them, for  
30     example their own terms and conditions, their own shipping policies, their own returns policies. All of that is unique to the seller themselves, we don't – from Etsy's point of view, we don't define any of that for our sellers.

       I think that's the key piece. So equally, if I go back to my Japanese  
35     kimono hat seller. Okay, let's say you decide that you would like a pink hat from her and you make the transaction on Etsy and we have the final cost price for the pink hat. But then two days later actually you change your outfit for your wedding and you email her off platform and you say, "Actually, could you change it to blue", and her blue silk is more expensive  
40     than her pink silk, so you then have to pay an additional let's say \$12 off platform. We would never see that. So that again just leads to the – we never have the full picture because essentially the transaction is between the seller and the buyer. And that's really where we struggle with having to then collect the 10 per cent of what this guessed final cost is.  
45

**MS FOSTER:** I think it's also key to highlight that the payment intermediary is actually in possession of the dollars and the money from the consumer, whereas we're not.

5 **MR HUDSON:** Kristen just made a point earlier just around access to  
information and I just wanted to pick up something she said. So the Netflix  
Tax or GST on intangible goods, that impacts our Alibaba Cloud product,  
it's a cloud computing service provider, they do sell into Australia and we  
do have a local data centre. We had zero objections to that legislation  
10 because we control the distribution of the product, we're actually collecting  
the revenue from the product, we can comply with that.

So some people have asked us, well, you can do the services, why can't  
you just do the products. And this is really the key distinction, is around  
15 that third party marketplace angle.

**MS FOSTER:** That's the same for eBay in terms of Netflix, we're  
captured under services but we're captured under the other part.

20 **MR COPPEL:** This Alipay company, is Alibaba the sole client of Alipay  
or do you have other?

**MR HUDSON:** Alipay is used by about 550 million Chinese consumers;  
it's a e-wallet and super app. It's used by millions of retailers in China.  
25 Mobile payments are very big in China; it's the number 1 provider in that  
mobile payment space. It's also used by about 6000 Australian retailers to  
accept cross border payments from in-bound Chinese visitors and students.

**MS CILENTO:** I don't have any other questions.

30

**MR COPPEL:** I'm good too.

**MS CILENTO:** I've got lots of other questions, in a way, but I suspect  
they will be addressed in the submission, and I'm looking forward to that.  
35 There's a couple of points that you made that hopefully the submission is  
going to address, which is this issue around, in principle, levelling the  
playing field around we charge GST for imported products that are sold in  
bricks and mortar but not if they're brought in online, versus the sort of non-  
tariff barrier kind of argument.

40

So some of that I think will be really useful for the submission to make  
clear what the position of the various groups is on that. I think as you will  
have guessed, we are very interested in information about your customers,  
who's importing, who's exporting, Kristen's talked about the regional sort  
45 of distribution of buyers, any of that information is going to be useful to us,

5 (1) to sort of really understand the businesses as best we can, and then to understand what the implications of the model are and all the rest of it, and the issues that you touched on in terms of having to build a response to be able to comply and all the rest of it, as much information and detail that you can put in around that is obviously useful to the team.

10 **MS FOSTER:** Absolutely. Just on behalf of eBay, I'd really like to say thank you to the Commission, we've had some very constructive engagement thus far and we welcome the opportunity to speak today and we're standing willing and ready to assist in any way that we can going forward.

15 **MS CILENTO:** There's always the option that once the team's had a look at your submission there might be a few other questions, so we may come back to you, if that's all right.

**MS FOSTER:** Absolutely.

20 **MS CILENTO:** Thank you so much for making the trip.

**MR HUDSON:** Thank you.

25 **MS CILENTO:** We'll adjourn the hearings for now and resume at 1.30. Thank you very much.

**ADJOURNED** [12.27 pm]

30 **RESUMED** [1.30 pm]

35 **MS CILENTO:** When you're ready, if you wouldn't mind just stating your name and affiliation for the record and then feel free to make any opening remarks that you would like.

40 **MR DAVIDSON:** My name is Sinclair Davidson. I'm a Professor of Institutional Economics at RMIT University. I'm a senior research fellow at the IPA and an academic fellow at the Australian Taxpayers Alliance. My colleague, Chris Berger, can't appear today, so it's just me. Basically, our submission to the Productivity Commission follows on from our submission to the Senate Inquiry where we advised against this particular form of taxation. We don't believe it would raise any revenue. We believe it would add nuisance value to the Australian economy. We believe it would disadvantage Australian consumers and basically has almost no

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redeeming feature whatsoever. And we recommended at that time that it not be adopted. We're preparing a submission for the Productivity Commission which we will put in the next few days. That will include our submission to the Senate and also the Hansard transcript of what we said at  
5 that time.

What we've done is actually address some of the questions which the Productivity Commission actually put forward. We have a number of concerns, some of which follow from the empirical literature mostly out of  
10 the United States and also some political economy concerns which came around enforcement of the particular tax. We are not at all convinced that the current American Government would enforce this tax. We would help the Australian Government to enforce this particular tax because we believe it will place American at a disadvantage. It would certainly not fit in with  
15 President Trump's America First approach.

In terms of the literature itself, we've actually pointed to some studies which have a look at online behaviour of consumers in the United States. Certainly it does appear to be the case that consumers in the United States  
20 are buying online for the purposes of avoiding state-based sales taxes in the United States. They have a state-based system and not a federal-based system like we have, and very often people buy online for the sole purpose of buying out of state and not having to pay sale taxes.

That also impacts upon where companies in the United States also choose to locate because if you don't have a physical presence in a state you don't have to collect sales tax in that particular state. The literature is quite clear on this. Consumers behave in a way to avoid sales taxes and  
25 businesses behave in a way to avoid sales tax as well.

One particular study that we found most interesting was a behavioural economics nudge study that was undertaken in the state of Nebraska. What happens in the United States is even if you don't pay the sales tax when you buy the purchases, you also have the opportunity to pay voluntarily the tax  
30 at the end of the year when you fill out your state-based income tax form. What happened in the state of Nebraska is that they sent a thousand taxpayers a notice saying that they were liable to pay any online sales tax that they hadn't previously paid and just to be aware that they could do so on their income tax at the state level. What happened was that the level of  
35 compliance with sales taxes increased from 0.7 per cent to 1.6 per cent. That is, of course, a doubling but is actually a very miniscule amount. The fact of the matter is people don't comply with online sales taxes even when nudged to do so.  
40

Now, if you look at the Australian case, the Treasury seems to assume  
45

that there would be a 27 per cent compliance rate with this particular tax if it was introduced in Australia. We actually think, given the American experience of 1.6 per cent, that 27 per cent is overly ambitious. We actually think that there will be much lower levels of compliance than Treasury have actually estimated, which, of course, means much lower levels of tax revenue will be raised relative to what Treasury actually estimate.

In terms of how reliable are Treasury's estimates of the revenue to be raised, we think particularly unreliable. We think the assumptions are heroic. We don't believe that people will necessarily comply, basically boiling down to a situation whereby we will have on the books a piece of legislation to raise tax that will actually not raise much revenue, but at the same time may reduce the utility of Australian consumers, leading to a situation where Australians may actually geo-blocked from participating in the global online purchases, leading to a situation whereby people may refuse to trade with Australians, generally speaking, where Australians will be forced to go into the darker more nebulous parts of the web in order to engage in online trading, exposing themselves to crime and so on.

Generally speaking, as we indicated before at the Senate Inquiry, a tax that's got no redeeming feature and we would certainly urge the Productivity Commission to recommend to the Government that it not proceed with this particular impost. Thank you.

**MS CILENTO:** No redeeming features at all?

**MR DAVIDSON:** No.

**MS CILENTO:** What would your response be to domestic bricks and mortar retailers who feel that they're being disadvantaged through competition online where the tax that they're required to pay doesn't apply to them?

**MR DAVIDSON:** I would have a lot more sympathy for the bricks and mortar companies if the price differentials were about 10 per cent. But in actual fact my colleague, Michaela Novak, did analysis once where she found that the price differentials were 17 per cent to about 70 per cent. If Australian bricks and mortar companies wish to compete with online companies, they should lower their prices. That's a very straightforward argument there. They are not competing because they are not price competitive.

**MS CILENTO:** I guess in a similar vein I think you've described the proposed tax as more of a tariff than a tax.

**MR DAVIDSON:** Yes.

5 **MS CILENTO:** But there's actually a body of evidence, particularly out of the OECD, which would disagree with that assessment. What's the basis on which you describe it as a tariff rather than a tax?

10 **MR DAVIDSON:** The objective here is – actually I would say it's a non-tariff barrier. The objective here is to provide protection to Australian companies. If you have a look at the rhetoric that's being employed by the Government and the arguments that they have made, these are pure anti-trade tariff protection measures, which, as the PC admitted in its own documentation, would be liable to be challenged in the WTO. I would hope that it would be challenged. This is actually just a straightforward anti-tariff or a non-tariff barrier to trade.

15 **MS CILENTO:** If it was a model which had higher compliance, for instance, if there was a logistics or transporter model, would you attach any redeeming features to it?

20 **MR DAVIDSON:** I think if you're going to have a tax you should actually hope to raise revenue. If it was a mechanism whereby we knew that it was going to raise revenue, we can then argue about is the revenue worth it or not. But to actually introduce a tax where you believe, where you know in advance it's not actually going to raise much revenue, that there will be high levels of non-compliance, that will bring the rest of the tax law into disrepute, these are not good policy measures. A tax that raises revenue, we can then argue about the tax burden. But a tax that's not going to raise much revenue is not one that we can say is a good idea.

30 **MR COPPEL:** Just on that point, I think it's in your Senate submission, you say there'll be very limited amount of revenue raised. You give the compliance argument, but you've also argued that the base, because of price elasticity effects, would be reduced or substituted on to less visible platforms. Do you have any sense of the sort of magnitude of the latter type of effect?

35 **MR DAVIDSON:** In the United States some of the early evidence suggested about 25 per cent of all trade was actually designed to avoid paying sales tax. That's the original Gulsby(?) Study from about 2000. That's probably on the high side. At the moment now the elasticity seems to be about 1 and a half. So a 10 per cent sales tax leads to a 15 per cent reduction in behaviour that will lead to people paying tax. To the extent that people can substitute in the darker side of the web, I suspect that they will. It does actually have the impact of exposing Australians to greater levels of criminality as well as people avoiding income tax.

**MR COPPEL:** These studies you're mentioning, are they referenced in the submission that you put in?

5 **MR DAVIDSON:** Yes. Unfortunately, we didn't expect to give a presentation before the submission date. So you'll be getting that in the next couple of days.

10 **MS CILENTO:** It's a slightly truncated timeline.

**MR DAVIDSON:** I understand.

15 **MS CILENTO:** Your initial comments around the likelihood that the US would be involved in any enforcement or efforts to enhance compliance, is that based solely on the current administration's approach to business competitiveness?

20 **MR DAVIDSON:** No, not solely, but generally speaking, foreign governments don't help each other enforcing their own tax laws anyway.

**MS CILENTO:** Australian Tax Office is playing a role in regards to collection of information of US citizens here in Australia.

25 **MR DAVIDSON:** Yes, but I think we'll find that's an asymmetric relationship. The Americans will not be helping us provide information on Australians in the United States. But generally speaking - - -

**MS CILENTO:** That's just an observation or is there - - -

30 **MR DAVIDSON:** That's an observation, but I suspect if you dug into that, yes, you would find the Americans are uncooperative.

35 **MR COPPEL:** But that's signed agreement – this is the OECD's model of automatic tax information sharing. They've signed agreements, they're a legally binding commitment.

**MR DAVIDSON:** Have you received an actual dollar? Have we received any actual money?

40 **MR COPPEL:** It's coming into place the middle of next year.

**MR DAVIDSON:** No, in other words.

45 **MR COPPEL:** It hasn't started.

**MR DAVIDSON:** Probably haven't received any money.

**MR COPPEL:** It's not to receive money, it's to get the information to enable that process.

5

**MR DAVIDSON:** The foreign governments, generally speaking, don't help each other collect tax on behalf of each other. This will place American companies trading into Australia. For example, in the Senate example we gave an example whereby a person in Hong Kong buys a painting for a person in Vietnam via an American company and the Vietnamese person posts it to a friend in Australia. All of a sudden, an American company is liable for tax in Australia. We would have to convince the American Government that that American company should then pay tax in Australia, that there was a linkage between Australia and the American company.

15

I suspect that you would (a) struggle to do that and (b) the current American Government would not actually participate in that particular venture simply because it places American companies that would then be required to be compliant with Australian laws at a comparative disadvantage to say Chinese companies that may not or any other company that does not. I'm not at all confident that this would, in fact, happen. When the tax office officials were asked at the Senate Inquiry how this would work they said, "We are very confident it would work," and yet Treasury were only 27 per cent confident that there would be a compliance rate. We know from a nudging study in the United States that there's a 1.6 per cent compliance rate.

20

25

We are invited to believe that the American Government will help Australian Government raise revenue on American companies when the American Government itself can't raise much revenue out of the same similar sorts of tax in its own territory. It's not a convincing argument when you have 1.6 compliance rate after a nudge in the United States. Yet we're asked to believe that there'll be at least 27 per cent. It doesn't work.

35

**MR COPPEL:** Are you aware of any Australian studies that have tried to create that sort of - - -

40

**MR DAVIDSON:** No, unfortunately not. There's a large literature in the United States because they've been grappling with this issue for a long time because of their state-based sales tax system.

**MS CILENTO:** I don't have any other questions.

45

**MR COPPEL:** I'm fine.



**MR DAVIDSON:** Thank you. You'll have our paper in the next couple of days with the references and all that stuff.

5     **MS CILENTO:** We look forward to that.

**MR DAVIDSON:** Thank you.

10     **MS CILENTO:** Thank you. It would be useful if you all introduce yourselves, if you don't mind.

15     **MR WILLIS:** I'm Kevin Willis, Director of Global Trade Services for Amazon covering cross-border Customs compliance, border compliance and export control.

**MS CILENTO:** Thank you.

20     **MR PALMER:** I'm Brian Palmer, Senior Manager of Postal Programs, our Washington DC office.

**MR SCHWARTZ:** I'm Michael Schwartz, Senior Program Manager for Amazon Global.

25     **MR RYNNE:** I'm Brendan Rynne, I'm partner at KPMG and I look after the funds economics practice.

**MR KAMALAPURAM:** My name is Prashant Kamalapuram, I'm Director in the international tax team at Amazon.

30     **MS BROADHURST:** My name is Diana Broadhurst, I'm the Legal Director for Amazon in Australia.

**MS CILENTO:** Excellent. Kick off as you see fit.

35     **MR WILLIS:** Let the kick-off begin. Good afternoon and thank you, Commissioners. Amazon welcomes the opportunity to speak to our concerns with the effectiveness of the legislative model and to share details of a more suitable model of collection on GST on low value imported goods. As stated in our pre-hearing submission, Amazon is proposing a  
40     goods and services tax collection model that builds on the transporter model developed as part of a low value parcel processing taskforce of 2012 and, we believe, offers the most effective model for ensuring a level playing field, maximising GST revenue for the states and territories and for meeting the timeline for implementation on 1 July 2018.  
45

As a starting point for my remarks, the legislated model will not achieve parliament's stated policy objectives of levelling the playing field for Australian retailers against foreign imports and maximising GST revenue. There are two main reasons for this: first, the legislated model relies on  
5 voluntary compliance by many thousands of non-resident vendors and marketplaces that have no presence in Australia. The legislated model also requires offshore enforcement of Australian tax laws against each of these businesses in every country in which they operate, which raises both practical and jurisdictional issues. As a result, many businesses will not  
10 comply with the legislated model without consequences.

Second, the model will motivate behavioural changes directed at avoiding the laws. As technology continues to advance, the cost of establishing new marketplaces will plummet and the number of  
15 marketplaces will proliferate. Suppliers will easily be able to migrate to multiple marketplaces, including those that are below the \$75,000 threshold. Customers, in turn, will adapt their buying behaviour to seek out vendors and marketplaces who do not charge GST as a result of pricing incentives.

20 Even if the Treasury's assumed collection rate of 54 per cent at maturity of the legislated model were accepted, 46 per cent of the value of all low value imported goods would still enter Australia without paying GST. This is far from a level playing field. But Amazon is concerned for the reasons  
25 I've just given, that even this 54 per cent assumption is very optimistic. There is a much better collection model, what we call the modernised transporter model, which builds on the work of the taskforce's 2012 model and updates it to take account of technological developments since 2012. Amazon's modernised transporter model offers an improved experience for  
30 customers, reduces the cost to and burden on transporters as well as border enforcement, in comparison to the original 2012 taskforce model.

We have submitted a written summary of this model, as well as a visualisation of the process flows which my colleagues will cover in greater  
35 detail. The modernised transporter model will substantially increase GST collection rates, generating greater tax revenue at a much lower cost to government and transporters than was contemplated at the time the original taskforce model was proposed. Since 2012, both post and cargo operators have upgraded their systems and processed these to enable them to collect  
40 more information more efficiently so they can better address rising threats to national security and safety, as well as international norms in respect of the electronic sharing of pre-arrival data on mail and cargo items.

45 Independent of these requirements, both express carriers and postal operators as commercial entities have made and continue to make

5 technological advancements to generate efficiencies and to maintain competitiveness and to comply with industry standards and regulatory requirements. These improvements can be leveraged to cost-effectively implement the modernised transporter model as only incremental changes are required to enable Australian transporters to collect and remit GST on low value imported goods using these systems.

10 In addition, cost will be incurred by a much smaller group in comparison to the thousands of affected vendors and marketplaces under the legislated model. Indeed, rationalising the number of taxpayers responsible for the GST on the import of low value goods to a smaller number of Australian-based entities, which are likely to be already registered for GST, should also improve tax administration and enforcement outcomes in addition to reducing costs.

15 Under Amazon's proposed model the Australian transporter will be responsible for collecting and remitting the GST on low value imported goods that it delivers into Australia. As the transporter is the party facilitating the importation, it is also the most appropriate part to be liable for the GST and should include this as part of its transport charges. By  
20 collecting GST from transporters the model will drive consistent treatment of parcels entering Australia, irrespective of who sold them, and will ensure significantly greater GST collection rates.

25 For cargo, there is evidence to suggest collection rates of 98 per cent based on EU experience. For mail, collection rates of more than 90 per cent.

30 **MS CILENTO:** Sorry, can I just interrupt just for a second just so I understand that? Who is the transporter collecting the GST from?

**MR WILLIS:** The transporter will be collecting the cost of the transportation charges which would include some amount that they deem appropriate for the GST.

35 **MS CILENTO:** So they're collecting that from the vendor.

**MS BROADHURST:** There's a single payment from consumer to the vendor. It includes the cost of the goods and the transport charges. The  
40 transport charges include an amount to cover GST, which in a simple calculation would be 10 per cent of the value of the stock.

**MS CILENTO:** The vendor is collecting that from the consumer and then remitting it to the transporter.

45

- MR WILLIS:** Yes, correct.
- MS CILENTO:** It's still the vendor who's actually assessing and applying the GST?
- 5 **MR KAMALAPURAM:** No, the vendor is collecting their price and as part of an input cost the transporter cost is an input cost to the vendor and the vendor is charging the supplier - - -
- 10 **MS CILENTO:** You're assuming the vendor wears the GST.
- MR KAMALAPURAM:** Whether they collect or not is immaterial.
- MS CILENTO:** But how would they collect it?
- 15 **MR KAMALAPURAM:** If a vendor collects \$10 and let's assume that they've collected nothing else, when the transporter charges the vendor for transporting the package they will say, "You owe me \$2 to ship this, plus \$1 of GST that I have to pay."
- 20 **MS CILENTO:** I'm an Australian consumer. I go on to Amazon's website and there's a book for \$10. You're just going to charge me \$10?
- MR KAMALAPURAM:** That is correct.
- 25 **MS CILENTO:** And maybe hidden in there is some GST or not?
- MR WILLIS:** No, the \$10 listed for the book is the \$10 for the book. This would be embedded in the freight and transportation. In other words, the transporter themselves as they clear through the border have the liability to pay the GST. They then pass that back. Just like today, if there's a dimensional weight rule that says this is what the shipping charge is going to be, they provide that back down the chain and then it gets charged on.
- 30 **MS CILENTO:** Just to be clear though, if the book is \$10 and the normal freight charge is \$1 and then the transporter charges Amazon \$2 - - -
- MR WILLIS:** \$1.10, but yes.
- 40 **MS CILENTO:** Well, no, \$10 - - -
- MR WILLIS:** \$10 on the book, \$1 on freight is \$11 SIF, SIF at 10 per cent is \$1.10. So they would charge the \$2.10 as say their freight cost to Amazon.
- 45

**MS CILENTO:** Doesn't that mean that Amazon is wearing the GST in your margins?

**MR KAMALAPURAM:** Potentially. It's just a cost we will factor.

5

**MS CILENTO:** But if you're not increasing your book price by the GST, doesn't that mean that Amazon wears the GST in its margin?

10 **MS BROADHURST:** No, because the way the checkout experience would work is the consumer sees the item on a listing page for \$10. We don't know if they're in Australia or somewhere else. So we can't provide them a GST-inclusive price at that point. And they're shopping potentially on an international website. They put the book in their cart, they go to checkout and at checkout they would be told that the transport charges  
15 associated with that book is say the \$2 shipping charge and a 1/11th charge to cover what - - -

**MS CILENTO:** This is my point. At some point on the vendor website that GST is being added.

20

**MR WILLIS:** Correct.

**MS BROADHURST:** That is correct. That enables the consumer to make a single payment, which was one of the challenges of the previous transporter model.

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**MR RYNNE:** And you're right in saying that the incentive is for the vendor to make sure that charge is embedded somewhere in the bundled price because - - -

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**MS CILENTO:** That's what I wasn't clear about.

**MR RYNNE:** Because otherwise the vendor will lose the margin and their profitability will reduce.

35

**MR KAMALAPURAM:** It's a choice that the vendor can make whether to include that as an uplift or whether to pay that as a margin.

**MR RYNNE:** That's correct.

40

**MS CILENTO:** I just wanted to understand where – and also whether transparency is around where that tax is being applied.

**MR COPPEL:** A follow-on question on that. Who actually is responsible for determining whether it's GST imposable or not, supposing that's a good

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that's GST exempt? Does Amazon provide that within its system or the vendor needs to know whether their good is - - -

**MR RYNNE:** We'll talk about it more as we go through the model.

5

**MR KAMALAPURAM:** It's probably better to go through the flow of the transaction and then we can – I think that's the better time to address your questions.

10 **MS CILENTO:** Sorry to interrupt.

**MR RYNNE:** That's fine, it's great.

15 **MR WILLIS:** I'm getting close to the finish. For mail collection rates of more than 90 per cent can be expected over time. KPMG modelling report suggests that the modernised transporter model would collect an extra \$1.8 billion over five years in GST revenue for the states and territories compared to the legislated model. The modernised transporter model would, therefore, be far more effective in levelling the playing field for  
20 Australian businesses. Our presentation this afternoon will focus on technological advances in international postal operator capability, facilitating Australia Post's ability to manage collection of GST on cross-border non-letter mail and provide a detailed review of the changes in model architecture, which enables the most effective approach to the challenge  
25 before us, what we call the modernised transporter model.

I will now hand over to my colleagues to described the modernised transporter model in greater detail, starting with Brian Palmer to my left, our senior manager for postal programs, followed by Michael Schwartz, our  
30 senior program manager for our Amazon Global business. They, in turn, will be followed by Brendan Rynne from KPMG who will take you through the KPMG modelling report.

35 **MR PALMER:** Thank you, Kevin. I'll be focusing on the first part of what Kevin was referring to with regard to the capabilities that have developed over the past five years with regard to postal operators and express carriers, especially their ability to transmit data. We believe that both the express carriers and the Australia Post are capable of achieving high collection rates primarily by leveraging their existing capability to  
40 receive electronic data from their business partners overseas, including postal partners; in other words, the overseas postal operator.

45 Since 2012 the postal world has drastically changed and posts have changed with it. This is due to two primary driving factors: one is the increased commercialisation of postal companies and their competition

with private express carriers in the ecommerce market. The other is regulatory requirements that have been imposed and will be imposed by intergovernmental agreements, especially under the Universal Postal Union, or UPU, to standardise regulations for data sharing between postal operators.

Postal corporations are no more providers of just letter mail. They are increasingly sophisticated ecommerce competitors that compete head to head with the express carriers, the UPSs, the FedExes and DHLs of the world in small package shipping. In fact, small package shipping between postal operators now makes up the lion's share of, by comparison, their private sector counterparts.

To further these ambitions postal companies have vastly improved their ability to exchange data, often in pre-arrival advanced electronic data, which improves their ability to remit Customs, it improves their ability to interact before the parcel actually arrives in the destination country. They've also bettered their ability to engage in bilateral and multilateral commercial agreements, much like an express carrier would have in the past. Australia Post is no exception.

Today developed countries, known as group 1 or target countries under the UPU parlance, transmit advanced electronic data on nearly every package that enters into Australia, often on pre-arrival sets. This is not just for regulatory requirements. It's not a requirement that's been imposed by Australian Government. But instead, it's to improve their competitive position vis-à-vis the private express carriers who have been actually transmitting this advanced data for some time now. But at the same time emerging supply chain requirements to Kevin's point for a national security, aviation security and Customs remittance reasons have taken shape that will call for the visibility necessary to remit this advanced electronic data. This is predominantly through the UPU.

The UPU is a specialised agency of United Nations that consists of 192 member countries and it basically governs the way that posts interact with each other, the way that they label their products for scanning purposes, the way that they pay each other for last minute delivery and the way their customs are collected. It's also sort of a commercial trade association recently because it's allowed these posts to harmonise their standards so it provides for a more seamless customs experience.

Now, to meet these two driving forces voluntary postal corporations around the world are moving towards advanced electronic data transmission just so that they can compete better. For example, group 1 target countries like Australia Post but also like Royal Mail or US Postal Service or Japan

Post have already engaged in agreements, multilateral and bilateral agreements, sometimes as part of the International Postal Corporation, through other systems, to exchange advanced electronic data for what they call a seamless customs experience.

5

Today virtually all group 1 countries are capable of and are receiving advanced electronic data that includes the value of the good, the description of the good, where it's headed, where it's coming from, et cetera. That's used for a lot of purposes. One is a streamlined customs experience, which, we've already mentioned, is for competitive purposes. But it's also used for targeted risk-based assessment. Customs authorities can say, "Hey, these characteristics are likely to be contraband," or, "likely to be counterfeit," or, "likely to be dangerous," or, "likely to be otherwise illegal." But it's also used for accurate and compliant assessment of taxes, duties, fees and other charges that may be applicable.

15

If I can turn your attention to the timeline since 2012. In 2012, in fact, before 2012, posts were already contemplating the new requirements that would be applied to them for, for example, national security reasons after a Yemen bomb threat in 2010 or for customs collections reasons with new cross-border fees, et cetera. But in 2012 at the Doha UPU Congress a plan was proposed called the Integrated Product Plan. The Integrated Product Plan sought to normalise and harmonise non-letter shipments of goods, including anything basically that's not a letter, not a document.

25

The IPP was put together through the Postal Operations Council, which is sort of the regulatory body of the UPU and it includes a number of group 1 countries, a number of group 2, a number of group 3, including Australia Post, China Post, United States Postal Service, Royal Mail, et cetera. As it took shape, it was proposed in two phases. The first phase was to apply the S10 standardised UPU barcode – and I'll show you the example of that in a second – to all packages, regardless of their value, but instead, because they contained goods. It was a content-based requirement.

30

That IPP would then, in turn, use those barcodes to allow for increased use of advanced electronic data for the purposes that I've described. In 2016, in Istanbul, the UPU amended the convention, which is sort of their constitution of their organisation, to adopt an integrated product plan path forward. The IPP phase 1 is now set to take place 1 January of next year, 2018. At that time, all postal operators, regardless of group, all 192 of them, will be required to apply an S10 barcode to their parcel.

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In January 2020, that S10 barcode will be used to transmit advanced electronic data, including, again, the value of the good or the price of the good, where it's coming from, where it's going, a description of the good

45



and its weight. If I could go to the next slide. Now, what you're looking at here is an advanced look at what this will result in under the IPP. It was a voluntary program that was put in place actually before 2012 congress between China Post and the United States Postal Service in order to streamline ecommerce shipments under 2 kilo. It's called the e-packet.

This e-packet is going from, you can see, China Post to Great Britain, to Royal Mail. It includes on the right the CN22 form, which describes the item, the value. Here it's hand fans – I'm not sure what those are – but on the left it also includes the S10 barcode and directly under it a human readable tracking number in the event that the barcode is damaged. That tracking number also contains all of that data. In fact, packages coming in to the UK with these labels attached to them can be used to clear through Customs before they're even taken off their originating country. We've heard from Royal Mail that a package that comes out of the United States as an e-packet is cleared within three seconds before leaving the country, not even as it's arriving.

Going back, what we have today is Australia Post is already taking part in the e-packet program with some 30 other developed countries and group 2 and group 3 countries. That includes Europe, that includes the United States, Canada, New Zealand and Japan. With that barcode they're already receiving advanced electronic data which can then be used to calculate the value of the good and, in turn, GST. Even today far in advance of the requirements of the UPU, which really wouldn't have an impact on Australia Post going out or coming in from group 1 countries 1 January 2018, the developed countries are already using this data to compete because that's the critical part is that they need to be able to do the same thing at the same speed that the private express carriers are.

For that reason, we think that among group 1 countries, of which several are the largest trading partners in small packet with Australia, including the UK, the United States and China Post, we believe that using this system, the modernised transporter model, will be able to allow for a higher level of collection and remittance and compliance than was previously thought possible, especially before the advent of this advanced electronic data by postal operators.

To sum up, the increasing availability of advanced electronic data will allow Australia Post to fully implement the model we estimate for group 1 countries and other e-packet partners by 1 July 2018 and then will allow them to implement the model with groups 2 through 4 over the following two years and then fully when the UPU requires advanced electronic data sharing 1 January 2020. With that, I will turn it over to my colleague, Michael, who will describe the process flow of the modernised transporter

model.

5 **MR SCHWARTZ:** Thank you, Brian. Now I'd like to walk you through the architectural design of the modernised transporter model. First, we'd like to scene set by showing you the full work flow here. As you can see, it has eight steps. What we'll do is we'll walk through each of these steps one by one to kind of get a better picture of how this works not only for cargo via the express carriers but also non-letter mail via the post.

10 The first step is that a customer will purchase the low value imported good for importation into Australia and the supplier will collect payment for the goods, including transport charges, per your earlier question - - -

15 **MS CILENTO:** And those transport charges include the GST?

**MR KAMALAPURAM:** That is correct.

**MR SCHWARTZ:** Yes.

20 **MS CILENTO:** It's transport charges and tax.

25 **MR KAMALAPURAM:** It's not a stated tax amount. The reason I say that, Commissioner, is because if a vendor does not charge that tax, the tax is still remitted by the logistics provider. I think this is where we're trying to draw a distinction between the legislated model and the Amazon proposed model, because in the legislated model a vendor could charge the tax and never remit it. In the legislated model a vendor could charge the tax and never remit it. You've heard statements and testimony to the extent that compliance rates of 27 per cent and 54 per cent. I could be a seller that's selling. I could increase my rates by 10 per cent, include the tax, and never remit to the Australian authorities.

35 **MS CILENTO:** I don't mean to be pedantic, but I am a little bit uncomfortable with calling the GST a transport charge. At some point there would be an expectation that you would have to say the good is worth X, X times 10 per cent is this charge, not we've just made up a number that includes some transport charge and another charge which we want to call whatever.

40 **MS BROADHURST:** The transporter charges would be inclusive of applicable taxes. It's not GST.

**MS CILENTO:** Can you see my angst in this?

45 **MR KAMALAPURAM:** Yes.

5 **MR SCHWARTZ:** It's this collection of payment upfront and conditional understanding of how it's been described to your angst, but it's this collection that is the first fundamental difference between the 2012 taskforce model and the modernised transporter model in that under this model there is only one payment by the purchaser and it is the funds flow happening at this time.

10 **MS CILENTO:** Is this the time for your question?

15 **MR SCHWARTZ:** No, your question is a little later, but I've got it on my list. Next is transporter selection. Here is where the supplier has contracted or will contract with either an express carrier such as DHL or FedEx or a postal operator such as the United States Postal Service to transport the low value imported good into Australia. Here is where the express carrier or postal operator will obtain the information needed to enable the importation of the goods from the supplier, such as the description of the goods, the price paid for the goods, the indicative weight of the package and the destination.

20 Additionally, it's at this time, as you can see in the red line, that the express carrier and overseas postal operator will charge the supplier their delivery charges, plus an amount to cover the GST payable on the goods when they're imported into Australia. The supplier will remit those transporter charges to the transporter.

25 **MR COPPEL:** But this all happens at the time they make the order or - - -

30 **MR SCHWARTZ:** As you might imagine today, we can't speculate for how every vendor would operator. Whereas Amazon may have an ongoing existing contract and you could imagine that these sort of things are relatively instantaneous from the time of charge to the time of ship, other entities might charge the customer on day 1 and take a few days to pick and pack and take it down to their FedEx office and ship it out. So we don't have any judgment on the timing of it or the settlement of the funds between the entities, in a generalised model anyway.

35 **MR COPPEL:** I'm a little bit confused now as well in how that information to the buyer of the freight, plus X GST – if that doesn't get communicated at the time that you execute the order - - -

40 **MR SCHWARTZ:** Let's say at the time of order I buy this glass and it is one glass and it costs \$10 and it weighs half a pound. All that information is held by the supplier when they effect the sale. So at the time that they ship it out through either entity, either through an existing contract or they

walk down to the post and send it, they will provide the information with a description of the glass, the weight and the price paid. All that would then be transmitted to the overseas post or the overseas express carrier in this step. At that time, in order to send it through that entity, they will also be  
5 informed of the charges that are required. So if there is a certain dimensional weight charge attached to it, they'll be informed of that. If there is a GST charge attached to it, they will be informed of that and that will be embedded into the price that the supplier pays to the overseas express carrier or the overseas post.

10 **MS CILENTO:** But in this model, as a vendor, you would still have to understand the likelihood that GST applies to your product.

15 **MR SCHWARTZ:** You have to understand that in order to ship it through one of these transporters that there is a GST charge.

**MS CILENTO:** It goes back to my original question, which is, if you as Amazon have an investment to understand whether the GST applies to that glass, then you'll wear it in your margin because you've already charged  
20 your customer.

**MR SCHWARTZ:** We will wear it in the freight and transportation charge, to your phrasing. In other words, for example, it might cost me \$10 to ship this with FedEx from United States to Australia. As a vendor, I can  
25 choose to charge the customer exclusive of GST for the time being, I can charge them zero and it doesn't make it a benefit to them. I can charge them 10 and make it dollar for dollar or I could charge them 20 and I can make money on my shipping and handling overhead to ship this out. There is no requirement in a generalised sense for any supplier to have a one to one or  
30 a greater or lower – relative to what they collect for freight and transportation to what they have to pay the carrier.

**MS CILENTO:** But presumably if you don't want to wear it, when you know the GST is coming in as Amazon, you're going to have to sit there  
35 and work out which of your products the GST applies to and charge it at the point of sale.

**MR SCHWARTZ:** Yes, that's correct.

40 **MR KAMALAPURAM:** Yes, because the point that you're making most products in Australia are subjected to tax. It's a different ballgame if you take other jurisdictions, it gets a lot more complex. Do we have products that are exempt? Yes. This is where it becomes really hard when you have millions of products trying to identify each product and say – and some of  
45 the data is not even with us because it's third parties selling the product and

we don't necessarily know, other than what little information they may have provided. The currently legislated model is a burden in that sense.

5 **MS CILENTO:** I'm just trying to understand because I don't actually – maybe I'm being a bit obtuse. But I don't understand how this model gets rid of that burden.

10 **MR SCHWARTZ:** It doesn't. Let me give you another example relative to the (indistinct) of a third party seller, which is very common to now Amazon but other platforms. A seller can list their product and list it at whatever price. Whereas Amazon could sell this glass for \$10, they could sell it for 30. It may not win the day because it's not as competitive, but if  
15 someone wanted to buy it and pay \$30 for the glass, they could. Under the legislated model were they to pay \$30 for the glass, the seller under a strict vendor would have no obligation to pay the marketplace, could not be compelled to pay, the marketplace could not be compelled to pay.

20 But under the transporter model, whether it was Amazon that sold it for 10 and, let's say, added zero dollars for shipping, or the seller that sold it for 30 and added \$10 for shipping, as that passes through the chain, that amount that they've added, based on what they know from the carrier, that \$10 is inclusive of the GST.

25 **MS CILENTO:** It's not what they know from the carrier. Surely they have to know when the post the price if they're going to charge the GST.

**MR KAMALAPURAM:** Yes, they need to know at the time the price is set whether we would include the GST that we pay to the carrier as input cost or not. That's part of our pricing. That is absolutely correct.

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**MS CILENTO:** Thank you.

**MR KAMALAPURAM:** The distinction we're trying to draw is in the legislated model you're only getting 54 per cent - - -

35

**MS CILENTO:** The issue here is compliance.

**MR KAMALAPURAM:** Yes.

40 **MS CILENTO:** You basically have the transporters holding the vendors to ransom. "We're not going to ship your goods unless you pay the GST."

**MR KAMALAPURAM:** I wouldn't say it's holding to ransom but if you want to use it that way.

45

**MS BROADHURST:** We're holding them accountable.

**MR KAMALAPURAM:** Yes, we're holding them accountable.

5 **MS CILENTO:** It's the same way as if it's at the border and the customer has to pay it when they pick up the package – we hold your package to ransom until you pay the GST.

10 **MR SCHWARTZ:** Yes, but there is a key distinction in this model that doesn't involve ransom, which we'll get to as we finish doing the walk-through.

**MS CILENTO:** If you're not going to ship their goods if they don't pay the GST - - -

15 **MR SCHWARTZ:** I guess to put it like this, when you think about the (indistinct) of a ransom in kind of a customs clearance environment that's happening at a certain point that it's kind of held up, typically a customer – the purchaser at the end of the picture who started it now has to try and wait  
20 to get their things.

**MS CILENTO:** They're not going to get their thing if the vendor doesn't pay it to the transporter.

25 **MR SCHWARTZ:** Right. But as a practical matter, I guess, if you have a seller or marketplace that never ships it out – I mean, you could have someone that takes money and never ships it. That's equivalent to taking money and I refuse to pay the transporter this additional charge they're asking for and so it never ships. In either case the supplier has kind of  
30 violated their arrangement with the purchaser and there is probably some charge-back or some other sort of thing.

What we're saying here is that unlike under the border model or in the previous 2012 taskforce model where there is, in fact, a two-step payment,  
35 where there is goods held for a ransom, to use the term, that's eliminated here. I'll kind of jump to the end for a second – don't move the slide yet. But when you get to the end one of the things you'll see is that what we're proposing here is in some ways substantially similar to what is happening today, except we're now including the GST tax collection on top of it.  
40 We'll show you how that works and as we get into the cost of compliance further on we'll explain how that cost is reduced from some of the numbers you may have seen before.

45 **MS BROADHURST:** If I can respond to that question though. Obviously the terms of trade between the seller and the carrier will differ. With

someone like Amazon we may be able to pay (indistinct) because we have standing arrangements. A smaller seller may go and pay on the spot in their local FedEx office or postal office. I don't think we have this situation where things are being held to ransom. There are these relationships - - -

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**MS CILENTO:** You can ignore that term. But ultimately the thing that this rests – I mean, correct me if I'm wrong with this. This is making the transporter the enforcer of the tax.

10 **MR RYNNE:** Correct.

**MS CILENTO:** The thing that they hold in that bargain is, "I'm not going to ship your good. If I shipped it and you don't pay me, then the next time I'm not going to ship your good."

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**MR RYNNE:** No. Under this model when we talk about the transporter we actually talk about the whole industry. It's not an individual transporter. Ultimately what needs to get paid to the transporter is the bundled cost of – sorry, what gets paid by the purchaser is the bundled cost for the product, plus the transport costs, plus the GST. I think the distinction of what we're trying to do in terms of identify where we attach the GST charge to is that if someone purchases that glass and is from New Zealand they don't need to have that GST attached to it. If that glass is coming to Australia, then it needs to be attached to it.

25

The distinction is when you go through and click to say where you're getting the product delivered to. Then you therefore need to attach that GST at that point in time. It's really bundling the transport cost with the GST charge at that point because you don't actually need to if you're not going to if it's being delivered to somewhere than Australia. But what then happens is that when the supplier seeks to engage a transporter, every transporter will, in fact, recognise – when they identify the good, they identify the value – what the appropriate level of GST needs to be charged for that. That will be the equivalent of the transport costs prior, plus the GST. So that the supplier won't find any other transporter, reputable transporter - - -

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**MS CILENTO:** We're saying the same thing. That all transporters will assist on the GST - - -

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**MR RYNNE:** All transporters will assist on that, yes. But the supplier won't have effectively other transporters, reputable transporters, to go to, so it won't be able to ship the product. So it is in their incentive if they want to continue to sell to Australia to make sure that that's done correctly.

45

- MR SCHWARTZ:** Next step. Once you've engaged with the overseas post or the overseas express carrier, that entity will then transmit to the domestic express carrier, or in the case of an entity like DHL that'll be within entities in your similar organisation, that information previously obtained in the earlier step from the supplier. This is where the description of goods, price paid, indicative weight of the package and the transporter charges paid are transmitted on to the local entity. As you can see, for a non-letter mail it's effectively the same process.
- At the same time this is where the overseas express carrier will also have been notified by its domestic carrier that there are transporter charges and they must include an amount of GST that the domestic express carrier has an obligation to pay on the price of goods that are being delivered to them for importation into Australia. For non-letter mail the same notification occurs by Australia Post to the overseas postal operator or carrier partner that was originating the shipment. This is the step where you see in red funds continue to transport forward to the local entity.
- In the next step this is where the domestic express carriers they would lodge an SAC, or self-assess clearance, with the DIBP, or Department of Immigration and Border Protection, in line with current reporting requirements to allow inspection on a risk-assessment basis prior to clearance once the goods are landed. This step is essential to understanding the forecasted level of cargo compliance under the modernised transporter model.
- Under the Copenhagen study from 2016 that we've referenced before and will be part of our submission, express carriers realised a declaration compliance of 98 per cent. We believe the act of lodging the SAC is equivalent to the declaration they measured in that study. Therefore, we believe 98 per cent compliance can be realised for express carriers under the modernised transporter model.
- Now, similar to that is on the top with Australia Post. They report imported goods today under a simplified electronic declaration, as my colleague Brian earlier described, using barcode information as transmitted to them from the originating postal operator without any need to warehouse goods at the border. These electronic declarations will be available by 1 July when you want to enact the legislation for all group 1 countries and for group 2 to 4 countries in subsequent years.
- The next step is the GST payment. At this step this is where the domestic express carrier, for example, on the bottom would self-assess the GST liability and remit this amount to the ATO as part of their normal business activity statements return process. Further, this GST liability calculated



amount that the domestic express carrier will need to know will be provided via the pre-arrival electronic data communication prior to the arrival of goods. Jonathan, this was your question. This is where the transporter would determine exemption based on the pre-arrival information that was  
5 originally transmitted in step 3 from the supplier to the overseas post and then from the overseas post to the Australia Post. This would include the description, the price paid, the weight and transport charges.

**MR COPPEL:** If I may, I finish my transaction with Amazon, final stages  
10 in the payment, I will know at that point what I'm finally going to end up paying or is it sometime later?

**MR SCHWARTZ:** I can only speak for Amazon. Our policy with global exports is that the price that you pay at checkout is the price you'll ever pay.  
15 You're never going to pay more than what's charged there. If it turns out that there's something more, we're not going to feed it back to you. I can't speak to what other vendors might do. If another supplier, for example, or marketplace thought there was an exemption and didn't pass that through based on what they thought the transporters would have as an uplift in their  
20 freight charge and then it got assessed, I can't speak to what their policies would be.

**MR COPPEL:** Melinda knows, just as an anecdote, I lived in France, I bought books through Amazon UK. At the end of the transaction I would  
25 seek that the French GST was added on to it and I'd receive the book in the mail. Is that a different model from what you're outlining here?

**MR SCHWARTZ:** Yes. In that model they're all within the EU common marketplace. There is like, if you will, kind a VAT reconciliation between  
30 the countries. It's not really true cross-border because they're all within the same common market. It would be more akin to if you lived in France and you bought a book from Mexico, for example. Then that would be outside of that market and in that case there wouldn't be a GST assessed on your shipment. There would just be whatever customs and duties and – custom  
35 clearance fees are required at the border.

**MS CILENTO:** I've got a different question which is I've been charged  
40 10 per cent on something which is exempt and it doesn't get determined until this step. Then who gets to keep my 10 per cent?

**MR SCHWARTZ:** One of the things that we looked at was how would one handle exemptions, for example? Under exemptions if you believed  
45 you were overcharged, since the liability rests with the transporter, then you would be able to, let's say, provide the tracking number of your shipment, which is a unique identifier for any given transporter, and ask that – claim

that you were overcharged for it and you'd like to get it back. If that were the case, then that would be the mechanism to recover the overcharged GST.

5     **MS CILENTO:** In this model if I'm not Amazon and I only sell \$50,000 worth of stuff into Australia, I just work that out in my initial selling price and my conversation with the transporter?

10     **MR SCHWARTZ:** That's correct. Notionally, if you imagine it's incumbent upon the supplier – if you're a buyer, if you're a purchaser and you want to buy from an infinity of places that could sell something, you would want to – you want to choose someone that has the lowest price that, I suppose, you trust. If someone said, "I'm going to sell this to you and I'm never going to charge you anymore," and they said it was exempt, they're  
15     not going to come back and ask for more money. Then I guess as a purchaser you feel okay. In the event you went to someone who overcharged you and you thought you deserved it back, your remedy would be to go to the transporter and make a claim based on your tracking.

20     **MS CILENTO:** I'm sure at some point you'll talk about the cost impost on the transporters.

25     **MR SCHWARTZ:** Yes. The final step, step 8, is cargo delivery. This is where the domestic express carrier or the Australia Post would deliver goods to the purchaser with no back and forth interaction between the carrier and recipient, i.e. as a single payment system. This is the second fundamental difference between the 2012 taskforce model and this modernised transporter model. To recall, the first difference was that there is one payment by the purchaser and here the second difference is that there  
30     is no storage and holding of goods while waiting before delivery.

35     In effect, the modernised transporter model is exactly what express carriers to today, as you can see in the picture, with one more step; step 7(c) the payment of GST to the ATO. Similarly, the modernised transporter model is exactly what Australia Post does today, with two more steps; steps  
40     5(c) or at 5(m) and 7(m), the integration with overseas postal operators to pass GST and the payment of GST to the ATO. As a result, we believe the implementation cost of this model will be low and we look forward to digging into that analysis of our costs and the impact to the customer in our subsequent section.

45     Before that part, we will turn it over to Brendan from KPMG who will speak to the KPMG modelling report which describes the significant revenue benefit of \$1.8 billion over five years under the modernised transporter model.

5 **MS CILENTO:** Brendan, at the risk of being rude, am I correct in assuming that the bulk of the difference in your revenue estimates relative to Treasury's is a compliance rate over 90 per cent compared with 54 per cent?

**MR RYNNE:** Correct. Yes.

10 **MS CILENTO:** Is there anything else you think we need to know?

**MR RYNNE:** No. Fundamentally it comes down to those compliance rates. Really, the GST calculated is a function of four elements, which is the volume of product, the price of that product, the compliance rates, which vary, depending by UPU country, and the GST rate.

15 **MS CILENTO:** Are there any other assumptions that you've used that would be significantly different? For instance, behavioural impacts of higher compliance rate, reducing trade flows or anything of that order that's largely significant?

20 **MR RYNNE:** Yes, only in model number 4, which we've got up there, which is the Australia Post phasing model. In that model we've assumed that there is a build-up effectively of different postal companies' compliance with this system. There are two different ways of modelling that. The simplest way that we modelled that was to adjust the GST  
25 threshold over the first four years. That created a behavioural incentive to move from cargo to post for some, and we assumed a 20 per cent behavioural shift.

30 **MS CILENTO:** Do these numbers also incorporate the phasing in of the group 2 to 5 countries under the UPU?

**MR RYNNE:** Yes, we do, but we graded them into effectively three levels. We had the group 1 countries which were applied a 98 per cent compliance  
35 rate. The group 2 countries we applied a 90 per cent compliance rate. The group 3 countries, which are Afghanistan and the like, 1 per cent.

**MS CILENTO:** I was going to say if you had said 54 I might be worried.

40 **MR RYNNE:** I was wondering whether I should ring the Congo post office and ask them their ability to collect GST, but I thought it was simpler just to say 1 per cent.

45 **MR COPPEL:** Is that what they are, just total guesstimates?

5 **MR RYNNE:** No, 98 per cent is based on two sources. The first one is the Customs audit which was of 2011 where they completed that audit process and worked out that the higher value products coming through were 98 per cent compliant. We have no reason to believe why that wouldn't be the case once this system was introduced for lower value products going through Customs. The Copenhagen economic study as well, which looked at low value products in particular, and it came up with 98 per cent as well. Two independent studies with exactly the same number, so we felt reasonably comfortable applying that as the compliance rate number.

10  
15 Then yes, the tier 2 companies, the group 2 companies, it was subjective judgment. However, they are still many first world countries, not LDCs. So we applied a rate of 90 per cent. We're still dealing with Singapore, Hong Kong, those type of jurisdictions. Then on the odd chance that we got some GST remitted back from the Congo, we put 1 per cent for the - - -

**MS CILENTO:** What did you attach to China?

20 **MR RYNNE:** China is in the group 1 countries.

**MS CILENTO:** I've cut you off, I'm sorry. I'm really conscious of time.

25 **MR RYNNE:** That's fine. I was going to go through all the models. But fundamentally, if we look at the four numbers there, the legislated model as per Treasury is that \$1.2 billion worth of GST. The next one going down is where we have these technology disruptions occurring within the marketplace. So we adopt even more conservative compliance numbers with regards to the legislative model. That falls to the GST benefit of the extra collections is about \$800 million. The transporter model, as we propose, because of its high level of compliance, generates about \$3 billion. The 1.8 incremental benefit over the legislated model is simply the 3 billion less the 1.2.

35 Then the fourth element where we have that phasing of effectively the tier 2 countries stepping up generates slightly lower revenues but still \$800 million more so than the legislated model. I think my colleagues are speaking to the Productivity Commission and running through the model tomorrow.

40 **MS CILENTO:** Which hopefully gets us to cost.

45 **MR SCHWARTZ:** Cost is next. Let's get back to cost. I think what we've presented so far is we believe the modernised transporter model – and I think this is consistent with what you'll hear from others in industry – that if the transporters at the time of clearance are responsible, you're

going to see very high compliance rates, in many cases more than double, of 90 to 98 per cent versus the 21 to 54 per cent. (2) The modernised transporter model will thus result in significantly higher GST revenue per states over five years. Then (3) the modernised transporter model's compliance rates are not only better, they're also more resistant(?) to technological advancement than the proposed legislated model.

For example, vendors and marketplaces can elect not to comply with the legislated model without consequence due to both practical and jurisdictional reasons. But technology is coming that can allow them to further circumvent the law using technology like a pop-up platform, the ability to create a marketplace on the fly or create a marketplace at a very low cost, add payment capability between buyer and supplier – and you see companies today like Payoneer that can do this very easily, and that's just the tip of the iceberg. That will allow vendors and marketplaces to find ways to stay under the \$75,000 threshold versus the transporter model.

There will always require planes and boats and registration with the Australian Government to bring goods across the border. Thus, by collecting GST from the transporters the model will drive consistent treatment of parcels entering Australia irrespective of who sold them and will ensure a significant greater GST collection rates. Then we get back to cost. What is it going to cost to implement and how is that going to affect the Australian consumer?

As you will see in our detailed submission, previous cost estimates associated with both the 2011 customs duty border model and the 2012 taskforce logistics model would have resulted in a shipping cost increase to the customer of upwards of \$70 per shipment for express and \$25 per shipment for Australia Post. Three hundred and 400 per cent shipping cost increases for the customer is simply not acceptable.

To address this, Amazon designed the modernised transporter model to achieve very high rates of compliance, both to level the playing field and maximise GST collection without bringing significant marginal cost to the customer or the government. We achieve this through the two key improvements we've already discussed. First, we take advantage of existing express carrier and Australia Post processes already in place to evaluate shipments and send information electronically, thus reducing new technical development required. Then second, the modernised transporter model modifies the 2012 taskforce model to enable the free flow of goods across the border and eliminate the storage of goods, the need to hold goods for ransom until the transporter receives the GST and the need for customers to make a second payment to cover the GST. These modifications also bring about substantial reductions in associated cost.

Now let's double-click or dive deeper into the impact of the modernised transporter model on the express carrier, Australia Post, the government or DIBP and then, importantly, the customer. First, the express carrier. In 2011, KPEC provided an estimate of \$30 per unit to process 16 million shipments between 100 and 1000 Australian dollars. For this \$30 per unit they attributed \$15 effectively to product inspection and duty calculation and \$15 per unit to invoicing and Customs clearance under the old customs duty border model.

Now, since the modernised transporter model does not hold shipments for clearance and since the GST is paid as a fixed percentage of the product value and transporter charges upfront, the latter \$15 per unit is eliminated. Since product inspection and duty calculation has been simplified significantly to your question of what is the cost going to be for a carrier to evaluate exemption, we expect this other \$15 to reduce by upwards of 80 per cent for a total of approximately \$3 per shipment. A one-time capital cost to integrate GST collection with the ATO for the picture we showed will be relatively small when amortized over multiple years in millions of shipments and should have no material impact on consumers. Given the average sub \$100 parcel cost of approximately \$45, the \$3 per shipment represents a 7 per cent increase ex GST.

**MS CILENTO:** Can I just explore this a little bit further? If you look at the two lots of \$15, the first lot being inspection, et cetera – there's one bucket of that that seems to be reduced by virtue of advances that have been made since the taskforce model, which is just the UPU stuff.

**MR SCHWARTZ:** For mail. We've haven't into mail yet, but yes. SAC is now pretty common - - -

**MS CILENTO:** Then there's the invoicing, the calculation of the GST, et cetera. That's been shifted from Customs to the transporter. Some of that still exists and there will also still be some risk-based inspection as well. I'm just wanting to make sure we're comparing apples with apples. That Customs bit that was lumped in here still exists to a certain extent. The invoicing, it was always 10 per cent.

**MR SCHWARTZ:** If we step back, let's say, to look at what's happening today. Today goods under 1000 are coming through, through express carriers and they're being evaluated for national security and other means by Customs. Implementing this model does not add a margin cost to that piece.

**MS CILENTO:** I wasn't really sure it wasn't - - -

5 **MR SCHWARTZ:** Before when I talked about the first \$15 what that literally referred to was once the consumer pays a broker to write up their FID, someone now on their side has to process the FID and consume it; and that's eliminated. That's where that first 15 is completely eliminated. Then the second 15 is that rather than have a sort of complex schedule which may affect duties which adds to that need to do calculation, now it is a much smaller subset of exemptions, which then is accounted for via the pre-arrival information, via the description, via the harmonisation code and so forth.

10 **MR COPPEL:** You mentioned also the holding costs at the border in the import model is – don't they just shift to the transporter?

15 **MR SCHWARTZ:** Today all goods under 1000 Australian pass through as they do. To the extent it's held, that's all built into what's happening today. Moving to the transporter model does not add a marginal cost relative to that element.

20 **MR COPPEL:** Our inquiry is looking at the legislated model and possible alternatives.

25 **MR SCHWARTZ:** I guess to look at it this way: under the legislated model you're adding costs outside of let's say the Customs or the border process own it. You still have this cost existing. It's not like if you go to the legislated model you save money by DIBP. You don't. It's what's happening today. So between the two, there is no marginal cost to affect that required review, which we see as an advantage because on the whole it brings this cost down to something that rather than – as I think we heard earlier today 9 and 10 per cent increases under a strict vendor or under the legislated model or this 3 and 4 hundred per cent from a few years ago, we think – and would encourage the Commission to double-click deeper with the express carriers to hear reasons for why this range of what costs are isn't what we think it is, because we feel pretty comfortable this is reality. That's for express carriers.

35 **MS BROADHURST:** We think the difference in the costs for express carriers and post quoted today as part of these inquiries are largely because they develop those costs based on the old taskforce model and that those costs would need to be reassessed to take into account the streamlining that we've achieved through this modernised taskforce model. We're not comparing like with like in terms of the cost that they've assessed. They've assessed them on a different model.

40 **MR KAMALAPURAM:** They've assessed it as of five years ago. I'm not sure if there was an objective assessment done after that initial

assessment that was done in 2011 and 2012.

5 **MS CILENTO:** You think compared to what's being transported today with no GST applied, that your model imposes an incremental cost of 7 per cent.

10 **MR SCHWARTZ:** It imposes \$3 per shipment. As we go through the rest of the notes, we see that as per both express carrier and Australia Post, the only place is where the cost is with the consumer. We see a very low or a very marginal additional cost to the government and a very low marginal cost to the customers themselves. Jumping to that, since there's no longer a need to do formal clearance and there's no FID or formal import declaration and it's a one-time single payment, the customer makes their purchase with the supplier and then their interaction is done.

15 **MS BROADHURST:** That was based on the average price of a good under \$100. Actually for goods between a hundred and a thousand it would be even smaller.

20 **MS CILENTO:** That's largely because you've got now this data sharing.

**MR SCHWARTZ:** Yes, that's correct.

25 **MR KAMALAPURAM:** That's our best estimate, again, as we've been saying, we can't predict for every affected party within the industry but we have looked at data to sort of forecast what we thought was the best.

30 **MS CILENTO:** If I can sort of paraphrase it. You've taken a step back. You've looked at the improvements in parcel movement and data sharing generally and then said, "Well, how can we acknowledge that in a model that charges the customer once and doesn't result in packages held at the border?"

35 **MR SCHWARTZ:** Correct, and ensures high compliance. The last piece on cost, if I can just get that out, is for the Australia Post. Earlier this year they cited a cost of \$900 million to process 56 million parcels per year, which comes out to about \$16 per shipment. This included about 560 million for new employees training and consumer education, 160 million for administration and enforcement, 120 million for managing abandoned goods and returns alone, and finally, 60 million for IT and storage warehouses. By comparison, the USPS has estimated somewhat recently that for a similar type of collection system to the one that Amazon is proposing at an annual cost of Australian 150 to 600 million dollars for 300 million parcels a year or approximately 50 cents to \$2 per shipment.

45



Now, this substantial reduction from \$16 per shipment to \$2 per shipment is primarily achieved due to the elimination of the hold ransom and two-step payments, so to your point about modifying the model in conjunction with the information that now substantially exists. Even  
5 assuming some additional uplift due to a scale of US postal versus Australia Post, we think it's reasonable to estimate an impact to the Australian customer of \$3 per shipment, again, also proposed. Therefore, Amazon believes that the modernised transporter model will be the most attractive  
10 GST collection model, given those facts and given that it will best generate level playing fields for Australian retailer and maximise GST revenue collection for the states.

**MS CILENTO:** Can I ask about one set of costs you haven't talked about?

15 **MR SCHWARTZ:** Sure.

**MS CILENTO:** What's the cost to Amazon?

**MR SCHWARTZ:** For Amazon, or for any supplier, because this isn't  
20 just about us – we have to think about what is a generalised solution for every supplier, every marketplace, every vendor. It's unique to their freight and transportation charges with their carriers.

**MS CILENTO:** Actually, let me just take a step back and I'll tell you why  
25 I ask that question. Because we've had other vendors who are opposed to the model because of the cost to them of adapting their systems to incorporate GST.

**MR SCHWARTZ:** To the legislated model. If you're asking under the  
30 transporter model – I'll start with Amazon. How would Amazon do it? We have contracts with our carriers for what they would charge us for getting any type of shipment out based on - - -

**MS CILENTO:** I'm sorry, going back to my initial question which is, if  
35 you are planning on not wearing the 10 per cent GST in your margin, somewhere when you charge the customer you have to have a process which identifies that the good is being shipped to Australia and a 10 per cent GST applies and that needs to be added to the sales price. Others have argued to us that imposes systems change costs. So I'm just interested if  
40 that's just not an issue for you.

**MR SCHWARTZ:** It is a systems change cost and it would be integrated  
under the transporter model into the calculations or the architecture we have, let's say, to take what our freight carriers would charge us and then  
45 incorporate any additional charges they might have, let's say that additional

\$3 for overhead and so on, as well as the GST that they're going to require to collect from us. That's where we would integrate it in and there would be costs associated which aren't specific.

5     **MS CILENTO:** If I go online and buy something, buy my books, and then it says – it gives me an estimate cost of shopping. So you're just going to alter that algorithm so if it's coming to Australia it's just going to add 10 per cent onto the value.

10    **MR KAMALAPURAM:** That is correct. That is under the model that we are proposing, Commissioner, but I think your question and what the other marketplaces have responded to is the cost to implement the legislated model. I think your question is more focused on what does it cost to - - -

15    **MS CILENTO:** Explain to me why it's different. They're saying to adopt their system so that they can identify that the good is going to Australia and that the GST applies, which your system will do in the same way - - -

**MR KAMALAPURAM:** Yes.

20    **MS CILENTO:** - - - is a big cost.

**MR KAMALAPURAM:** In a slightly different way.

25    **MS CILENTO:** It's a different step, but you're still basically identifying is the good going – unless I'm wrong.

**MR KAMALAPURAM:** There is a slight nuance over there, but I'll bring it out.

30    **MS CILENTO:** Does the tax apply?

**MR KAMALAPURAM:** There's a slight nuance, so let me go into the details of it, Commissioner. I think the first thing is under the model that we are proposing all we are saying is we will estimate what those taxes are. It's not a precision (indistinct) number. There is a fundamental difference when you say I am the person liable to pay the tax. I need to have a high degree of precision in terms of what every item that's listed on my website is because – to the point that you were raising, Joe Blow who's selling something on our website says this product is this. But if it's really not that, I'm on the hook for paying that tax if the description that that seller gave was incorrect.

45       What we are proposing in our model – and that's where there is a slight distinction – is we are catalogue agnostic. We will collect an estimate and

it's the carrier that will charge us the tax.

**MS CILENTO:** But is that the sort of swings and roundabouts you feel okay with that because you're big?

5

**MR KAMALAPURAM:** The key distinction is the effort needed to do both are very different. The effort to do the legislated model, I can tell you that we got some information under a freedom of information request from the ATO on the cost of compliance. They have estimated that the initial  
10 cost to set this model up is \$2600 and the annual cost to maintain and pay the taxes under the legislated model are about \$400. That number is a joke, honestly. I can tell you that we're going to spend probably 10 times that just to comply, or even more. It's just so hard. I can tell you that we've done some sense to the analysis of if there are 2500 sellers and you take a  
15 \$50,000 initial cost of setting this legislated model up and a \$10,000 annual cost to comply with the Australian GST, the cost to the Australian consumer will be \$350 million to \$1.4 billion. The \$1.4 billion comes if there are 10,000 participants that are affected by this legislation.

20 Again, we don't have meaningful estimates of how many people will comply with this. I can tell you that I can comfortably say that we will spend several million dollars to comply with this. The upfront cost will be several million dollars to make changes to our systems and the ongoing cost is not the \$400 that the ATO has estimated.

25

**MS CILENTO:** This is the legislated model?

**MR KAMALAPURAM:** That's correct, yes.

30 **MR SCHWARTZ:** Under the legislated model you would have – I need to cite the previous speaker. You would spending all this time and money at all these different vendors to achieve a compliance rate you know to be low at the outset.

35 **MS CILENTO:** I understand, thank you. With the legislated model – I'll ask two questions. Your concern about compliance, I'm assuming – correct me if I'm wrong – under the legislated model is that Amazon will comply and others won't and therefore you'll be at a competitive disadvantage.

40 **MR KAMALAPURAM:** That is correct.

**MR SCHWARTZ:** Correct. But also it's that the Australian retailers are not going to have a high enough compliance rate for this to be at the level that they want. It won't create a level playing field for retailers.

45

**MS CILENTO:** That worries you how?

**MR KAMALAPURAM:** We'll be an Australian retailer as soon as - - -

5 **MR SCHWARTZ:** Sorry, what was that?

**MR KAMALAPURAM:** I said we will be an Australian retailer too. So we would view ourselves as an impacted business.

10 **MR SCHWARTZ:** For our part, we're in most countries. If we're looking at – everything we do is kind of watched everywhere. We want to ensure there's a level playing field. Getting an advantage in one domicile is at some point going to hurt you somewhere else. So if we can – given the national interests that have been stated by the state with regard to this issue,  
15 a level playing field, if achieved, is going to be better for us in the long run.

**MS BROADHURST:** We're not unwilling to invest in compliance. We just don't want to be in a position where not only do we invest and others don't, but we invest in an orphan system that after a two-year review we get  
20 told - - -

**MS CILENTO:** That question wasn't meant to be as cynical as that. It goes to that point.

25 **MS BROADHURST:** That is a real concern for us. Or we have 190 other countries that decide to replicate this system and we keep having to make these investments over and over again every time another country - - -

**MS CILENTO:** That's exactly where I was going with this.

30 **MS BROADHURST:** When each country could have implemented a transporter model at their border and then all suppliers globally could benefit from and leverage that. We haven't spoken today about the concerns that this – the impact this model could have on Australian exporters. That you're also asking them – you're also creating a model that,  
35 if replicated, requires them to make investments to trade with multiple countries when, instead, they wouldn't be impacted by a model that requires investment by carriers and postal service providers. And they have to make those investments over and over again.

40 We end up with clearly a number much higher than 2600. Say 10,000 suppliers and vendors needed to spend that – and that 10,000 is based on the ATO's projections – and then many, many countries deciding to do the same thing. That's the true cost of this type of model.  
45

5 **MR KAMALAPURAM:** To that point, Commissioners, as you know, New Zealand is interested in – they are watching what Australia is doing. Singapore is the furthest ahead. They have issued a consultation paper on the lines of the Australian experience or the Australian proposal. Two other countries in the Asia Pacific region are also interested and are watching Australia. Those are Thailand and Taiwan. Then China has made some public statements to the effect that they're interested in doing something too. So this issue is mushrooming into much bigger issue than just Australia. It's not about one country, as Diana was mentioning. It's really a much more fundamental shift that's occurring.

15 The problem that we have with the current model – and you were asking some questions earlier as to why wouldn't foreign jurisdictions enforce your legislation. Because you don't have any agreement to. There was a question raised as to when entering into multilateral agreements for information sharing but that doesn't extend to sales taxes. Most of the treaties today that exist that Australia has signed on with most of the jurisdictions only cover federal income taxes. They don't even cover state income taxes in most cases. To expect that foreign jurisdictions to the point that Mr Sinclair was making that foreign jurisdictions would go out and enforce Australian GST legislation, I think, is really, in my mind, a pipedream actually.

25 **MR COPPEL:** Can I ask just one more specific question on the model and then I want to ask a question which is related but quite different. The extent to which the 75,000 threshold for a vendor complicates what you're proposing – and to explain a bit more, suppose a vendor has 40,000 in sales through Amazon and another 40,000 through another platform. You wouldn't know the other 40,000. I presume you would assume it's more than 75 or not.

35 **MR KAMALAPURAM:** Can I ask a clarification question, Commissioner, before we respond to that? You're asking as it relates to our proposed model or the legislated model?

**MR COPPEL:** Well, it would be an issue in both.

**MR KAMALAPURAM:** No, it's not.

40 **MR COPPEL:** Well, from a broader perspective.

45 **MR KAMALAPURAM:** Sure. But in the legislated model it's not. We have a problem with that because the smaller suppliers are being penalised for selling on an Amazon website because the threshold is being aggregated at the marketplace level. So we have fundamental concerns about that and

we did express that, that you're treating – Australian small businesses and non-Australian small businesses are not being treated equally.

5       **MS BROADHURST:** The business that should be eligible for GST exemption, if their revenue is under \$75,000, is the carrier or postal service provider. Alternately, the only way to level the playing field is to not apply that \$75,000 threshold to sales made offshore. It's the only way to level the playing field.

10       **MR KAMALAPURAM:** Basically, even in our proposed model we're just assuming that when – we are basically supporting a reduction of the threshold to zero with no thresholds for offshore businesses. Every item that's coming in to Australia will be subjected to taxes is the thesis of our proposal; basically that's what we're saying. So in that sense we're not  
15       being consistent. We're also making that same error. But, again - - -

**MR SCHWARTZ:** It gets back to Diana's point that the reason for the \$75,000 threshold domestically is that if you're a small shop it is a burden to have to file and take care of GST. Similarly, if there was a transporter  
20       who was under \$75,000 and says goods delivered to value and so on, they would deserve an exemption. If not, they would be large enough to handle the compliance cost, therefore they should be liable to the GST.

**MR COPPEL:** The other issue which I wanted to bring up is the payment  
25       system is also one where there's been quite a lot in terms of technological innovations over the last five years or so. We've heard in our earlier investigations that this could be a point at which collection is taken. I'm wondering whether in your thinking about the alternative model you have looked at whether the payment system or whether something within the  
30       payment system is one which would be feasible.

**MR KAMALAPURAM:** I can respond to that. We honestly did not because we went by the terms of reference of the Commission and what the Commission said, basically that they're interested in only looking at the  
35       logistics and the legislated model to compare the two. So we were really focused on that as a primary sort of effort.

**MS BROADHURST:** And we recognise that there are existing mechanisms that can be used to enable payment service providers to  
40       understand the characterisation (indistinct) and what we've done is propose a model that leverages mechanisms and systems that collect that data now.

**MR KAMALAPURAM:** The incremental cost is far more significant in a payments (indistinct) situation because I think they may have the best  
45       argument to say that, "I don't know what a customer is paying for. I'm just

an issuing bank. I'm just transmitting money. I don't know for what."

**MS CILENTO:** You've looked for a model based on intermediaries who are collecting the data now.

5

**MR KAMALAPURAM:** Yes.

**MS BROADHURST:** Yes. Who has the best data.

10 **MR SCHWARTZ:** Just to add, the payment model also has the same jurisdictional issues. If you have a payment entity that processes it in China, Kazakhstan or Belgium, generally need to enforce payment of the GST cross-border.

15 **MS CILENTO:** I think I've subjected these kind people to enough.

**MR COPPEL:** And many of them.

**MS CILENTO:** I didn't have any more questions.

20

**MR WILLIS:** If we just wrap up a little bit. First, we very much appreciate the opportunity provided us today to present our viewpoints and proposal for a solution to the collection model challenges. As you heard from the presentation from my colleagues and from Mr Rynne, Amazon is proposing the modernised transporter model and we're doing so for the following key reasons. As our information depicts, this is the most effective model for ensuring a level playing field, for maximising GST revenue for states and territories and for meeting the timeline for implementation on 1 July 2018.

30

Advances in the international postal operator space, along with changes in model architecture, lead us to conclude that the modernised transporter model is the most effective path forward for all of us. We look forward to ongoing dialogue with the Commission as you deliberate and formulate your assessment of the GST collection models. Thank you.

35

**MS CILENTO:** Thank you very much. Thank you for taking the time to make your way to us. We'll adjourn for 15 minutes.

40

**ADJOURNED**

**[3.06 pm]**

**RESUMED**

**[3.19 pm]**

45

**MS CILENTO:** If you wouldn't mind introducing yourselves and then feel free to make whatever opening statements you care to.

5     **MS McCARTHY:** Thank you. Roslyn McCarthy, General Manager International Operations.

**MR NEWTON:** Jared Newton, General Manager Government Affairs.

10     **MS McCARTHY:** Thank you to the Productivity Commission for having us here this afternoon to provide, I suppose, insights into where we've gone through on the discussion paper. When we have been looking at the aspects of the Treasury amendment laws and implementation of the vendor registration model, we've been looking at the, I suppose, impacts as it  
15     applies to Australia Post. It touches on three key areas. One is obviously the postal strain. The second is the cargo channel where we have our business, StarTrack International, and we also have – we deliver our model in terms of our ShopMate service.

20             When we've been looking at the vendor registration model we also, I suppose, in consideration of the other models that were put forward took into account the scope of works that was undertaken by the low value parcel processing taskforce and the recommendations that they put in there. When we looked at that we really wanted to ensure that we were also minimising  
25     any administration costs, ensuring that there was no delay to process flow or trade flow at the border and ensuring that we also had a good customer experience.

30             We also recognise that there has been movement since 2012 in terms of agreements at the Universal Postal Union level in terms of electronic advanced data being provided. Currently at the moment, the UPU in 2015 adopted a review in terms of implementation of electronic advanced data. Currently at the moment, we do have 20 countries that provide electronic advanced data. But the quality and compliance of that information requires  
35     further work.

40             I think when having a look at the other models there's also been assumptions made that Australia Post has infrastructure already in place to potentially take on the burden of collecting the GST. When we looked at the original cost model for implementing the low value threshold and we came up, I suppose, with if we had to undertake an assessment under that model, without electronic advanced data, that would be the worst case scenario in terms of the cost because every item would require physical examination.

45



We also worked that through in terms of time in motion model. Currently while we get electronic advanced data we are not able to use that for Customs clearance. We have a joint program of work that we are currently doing with DIBPS and Department of Agriculture and Water  
5 Resources in terms of enabling that information to be provided in terms of the Customs declaration system so that we are able to exchange that data and get a response and accelerate the clearance times.

I think it was also recognised when we looked at the implementation of  
10 electronic advanced data it's not an overnight process in terms of the timing for compliance. Obviously that has to be agreed through not only the Universal Postal Union but also through multilateral and bilateral arrangements. So we took into consideration what that would mean in terms of what we could undertake to support the legislation. With the, I  
15 suppose, the alternative models that were put up, the cost with that investment would be extremely difficult for Australia Post to undertake until a phased rollout would be agreed.

Looking at the vendor registration model, the onus is on the vendor to  
20 provide that information and therefore wouldn't create any additional administration for Australia Post, nor would it create any additional workload in terms of holding the items. I think the biggest concern with the border collection model or even the transporter model is that, in effect, it would be held to ransom because you would have to ensure compliance  
25 before you would be able to release those items for delivery.

**MS CILENTO:** Thank you. Maybe if I start with just sort of better understanding your process. What sort of information does Australia Post collect now routinely as part of its parcel delivery through whatever stream?  
30

**MS McCARTHY:** There is standardised documentation that's agreed for other postal channel which is the CN22 which includes all of the Customs information that's required. Things like having the sender, the receiver, the value of the item, as well as a – normally it would also have a description  
35 of the goods that would be applied to it. Currently at the moment the process is you would have a CN22 for letters and a CN23 for parcels in terms of documentation. Currently at the moment, the information that's contained on that document is displayed on the parcel and in some instances where there are agreements in place that information is provided  
40 electronically.

**MS CILENTO:** You're now collecting electronic advanced data and you're sharing that with other countries?

45 **MS McCARTHY:** Yes. We share that currently at the moment. Currently

we have 20 countries that we have that provide us with electronic advanced data, including Canada, China, France, Hong Kong, GB, Japan, Korea, Spain, Thailand and the USA. We have another 10 with Austria, Belgium, Brazil, Switzerland, Germany, Gibraltar, Iceland, Netherlands, New Zealand and Slovakia. Part of that is, as I said, they provide that information but we primarily use that for tracking of the items as they go through the system and, as I said, we have a program of work with DIBPS and Department of Agriculture and Water Resources on upgrading the ICS platform to accept EAD information that comes through.

10 **MS CILENTO:** But you can't use that for Customs clearance. Why not?

**MS McCARTHY:** Primarily at the moment the current platform doesn't accept the information in its current format.

15 **MS CILENTO:** So it's a systems talking to systems thing.

**MS McCARTHY:** Yes.

20 **MS CILENTO:** Do you have any sense of how much of your parcel trade would be accounted for by the 20 countries that you're already data sharing with?

**MS McCARTHY:** I'll come back to you on the volumes.

25 **MR COPPEL:** I was just going to ask a question. You made the comment that on EAD that the quality and the information collected would require further work to be able to collect GST. Can you explain what further work or quality issues you have in mind?

30 **MS McCARTHY:** Currently, to ensure that all of – there is low mandatory fields in the CN23. When you go to the post office and you fill it out, if you miss out one field, there's no consequence for not filling out that field. The consequence when it arrives, if it's coming from overseas into Australia and if that's a field that's required, then that may require a physical assessment of that item as it comes through if that's what we're looking for.

35  
40 With the information on the CN23s coming in to Australia, as I said, we would have to ensure that we could – we don't get it for every product that comes into Australia. Whilst we exchange the data with those 20 countries, not all of them provide it for packet advice. Some of them only provide it for our AMS service. Some of them provide it for our AMS and e-packet service. But they don't provide it for every single item that comes into Australia with what they have. In terms of data quality, part of that  
45 would be looking at what percentage of their data that they actually

exchange on what products but also what their data quality would be in terms of how they fill out the fields on the CN23.

5 **MR COPPEL:** Is that something – was it a matter of making the field mandatory? Is that something that would have to go through the UPU for agreement among the members?

10 **MS McCARTHY:** For the value of the items, no. There is a field available on the CN23. For GST collection, for a GST valuation to be placed on the CN23, that would have to go back through the UPU as well as the World Customs Organisation to ensure that that is captured.

15 **MS CILENTO:** That sort of led to my question, which is you mentioned you're not well placed in terms of adopting the collection of GST and that there would be significant burden attached to that. I'm just wondering if you could explain a little bit more what the systems changes or process changes would need to be in order for Australia Post to become, I guess, the point in the supply chain that was liable for the determination and collection of GST.

20 **MS McCARTHY:** I think with a system change to ensure that you are able to collect, you would be seeking that you would have a hundred per cent compliance on your data in terms of being able to provide that and for basically all 192 countries being signed up, not just the category 1 countries,  
25 but also category 2 and category 3 countries that are covered off by the UPU. In terms of the program of work that would need to happen for that, you'd also need to ensure that you had sufficient capacity to actually receive that volume coming in to Australia. But you would need – we have the underlying systems at the moment through IPS to put that data through. We  
30 would need to change the interface with Customs and Department of Agriculture in relation to capturing that component of the GST if we could get that agreement from the WCO and UPU level, which would require that to be undertaken.

35 I think in terms of the phasings that we had spoken to previously in the low value parcel processing taskforce we had said that there would be a phased approach, depending upon the countries, but also from, I suppose, large volume customers that would opt in and provide that information so that you could also accelerate that border clearance process.

40 **MS CILENTO:** We had immediately prior to you a proposal put where the GST would be collected from the vendors, so those that were engaging in the transport contract with you. Would that expedite, do you think, the provision of data?

45

5 **MS McCARTHY:** I think with the provision of data in terms of the alternative model that was spoken to in the previous session, yes, and it was considered as an option for the low value parcel processing taskforce as an opt-in model for consideration to increase the level of compliance for data being provided.

10 **MS CILENTO:** Perhaps you might have a better sense of this and I know it's difficult to sort of explain. But how much change has happened to parcel processing and the efficiency of parcel processing since that taskforce and say our own work and the Productivity Commission in 2011?

15 **MS McCARTHY:** There has been change that's been implemented since 2012 but the processes of assessment for border clearance for the postal channel into Australia hasn't changed that significantly in terms of what's been undertaken. Considering that there's a risk assessment that's undertaken when the product comes into Australia, if we're looking at electronic advanced data, I suppose there is an ability that's there, which has changed having that ability but making sure that we've got the processes and systems in place to accept and then distribute off that has been a bit different.

20 We have also made changes in terms of our infrastructure in terms of our capability post the border to actually process those items in a much faster manner than what we've done previously with also capability upon those machine sets to also capture different sets of information as we go through.

25 **MR COPPEL:** You've mentioned the 20-odd countries which are providing electronic data. Can you give an idea as to the timeline for the remaining countries? Are they in line with what was agreed at the UPU?

**MS McCARTHY:** I'd have to take that on notice.

30 **MS CILENTO:** I've touched on a little bit of one aspect of the proposal that Amazon put prior to your coming up. Have you got a view on whether that model is viable and whether the costs that they were suggesting are reasonable assumptions of the costs of that model?

35 **MS McCARTHY:** I won't comment on the cost because I think it also assumed a level of infrastructure and process that's available in other postal organisations that we would have to review in terms of that cost model. And understanding that the USPS, for example, has a very different infrastructure model compared to what we have in Australia. In terms of the actual opportunities, I think for large volume providers that would be generating greater than \$75,000 worth of revenue into Australia. I don't

believe that the burden should be placed in terms of Australia Post or the freight industry in terms of collecting that GST.

5 The reason why I say that is because you would have to assess for non-compliance in terms of putting those systems and infrastructure in place to actually be able to detect. So where you've got information available, you would also look at why couldn't a direct relationship be made with the ATO in some of those circumstances where those volumes are large. But, as I said, part of it really simply we had considered it under the low value parcel  
10 processing model as an opt-in model, but primarily from a data compliance and also we had large volume users coming through the system.

**MS CILENTO:** I mean, the number that's been quoted in terms of the costs that I think Australia Post has flagged before is quite significant in  
15 terms of nearly a billion dollars. Have you got information around the sort of breakdown of that cost impost?

**MS McCARTHY:** Yes, we do and we'll provide that in our submission.

20 **MR COPPEL:** How does it work now when a parcel comes in which has an estimated value of above \$1000? How do you process that?

**MS McCARTHY:** When an item comes into Australia, it's either above \$1000, which will have a formal import declaration. The volume of items  
25 that we receive above \$1000 is extremely low. We receive probably less than 10,000 items per annum that would be over \$1000. In relation to items that are under \$1000, which is the majority of our work, then because it's not assessed for GST, it will be assessed at the border for excise and duties by DIBPS as well as by security and other risk factors. Once that's been  
30 cleared by Customs, then we will take that on and inject it into the domestic network.

**MS CILENTO:** In your submission if you're looking at the cost of – the existing number that's out there, do you think you might be able to provide  
35 us with an estimate of what the costs would be if you were required to collect GST?

**MS McCARTHY:** Yes.

40 **MS CILENTO:** Just for my own understanding, you reference the US Postal Service infrastructure and model as being different to Australia. Is that a distance and scale issue or are there other aspects of technology that they have incorporated that have not been incorporated in Australia? I'm  
45 interested in what the differences are.

5 **MS McCARTHY:** I suppose their biggest differences that they have is that their reporting systems for both inbound and outbound have taken – they have already adopted electronic reporting so that all of their items going outside of the US is already provided into Customs for review. But they also have more automation across all of their product sets and different capabilities than what we have. Probably the two models that we had a look at previously was Canada Post who provides GST not only internationally but also domestically. We had a look at their handling costs which they charge 9.95, I think, for anything that requires GST collection. And their de minimis value is \$20. So anything above \$20, GST will be applied to; anything under \$20 it's not. They also have a fairly descriptive exemptions list around gifts in terms of how they're determined.

15 We also had a look – and in terms of Canada Post, they built their international facilities primarily based around how they would be able to capture that information electronically from when they actually started from the ground up, especially with their Vancouver facility.

20 **MR COPPEL:** To what extent is Canada Post using the data in the EAD to make those assessments?

25 **MS McCARTHY:** Currently they're probably considered best practice in terms of integration of EAD within their processes and their systems. They would probably use – I can't comment on how much of it it is, but they do use it fairly extensively and, as I said, from a postal perspective, they would be considered world's best practice.

30 **MR COPPEL:** They've overcome some of these system interoperability issues that you mentioned earlier on.

**MS McCARTHY:** Yes.

35 **MS CILENTO:** My understanding of the model legislated does require Australia Post to collect additional information. Is that your understanding of it and have you given any thought to what the sort of cost of burden of that is?

40 **MS McCARTHY:** We are evaluating the additional costs at the moment, but we have been in discussions with the Australian Taxation Office around the implementation of the data and how we provide that through the current systems and what we'll need to do to upgrade.

45 **MS CILENTO:** Is that something that you might be able to address a bit more in your submission as well in terms of understanding of cost of that?

**MS McCARTHY:** Yes, we'll take that into consideration and provide that in the submission.

5 **MS CILENTO:** That's all from me as well. Thank you for coming. That concludes the list of formal participants that we had, but there is an opportunity for anyone in the audience if they wish to make comments to come forward at this point. Thank you, again, for your time.

10 **MR ROACH:** Hi, Perry Roach, CEO of Netsweeper. I was also in Sydney on Tuesday. I sat through pretty well every submission and a lot of the – it circles around costs and I'm just not sure if we clearly identified Amazon's costs. I know they're going to submit another one, but is there a cost or a price or a fee that goes back to Amazon? Is your model also allow for the millions of other vendors and shippers to get a fee as well? That was the  
15 one question I had. Maybe they can address that in their submission and I'll read it. But I'd just like the Commissioners to take a look at alternative methods that take the burden away from all the stakeholders.

20 The worldwide web is a world issue and if you put all the burden on a transporter or if you give all the money that you're going to collect in the future to run through the hands of not only local but international merchants that you may or may not even know much about, that's a huge risk for the country to give to pass their money around the world and then hope or somehow find a way for that money to travel back. Think about that money  
25 flow. Think about right now. Today bricks and mortar.

I have an economics background. Governments have traditionally made money through the retail business. Tax is the foundation of a nation. It stayed inside of your country. You'd never let it leave. Even another  
30 huge ability to make money on tax is through fuel or from China goods, but you've always been able to keep that inside your country. If you put the burden on other stakeholders that are outside of the country to somehow manage that for you as the attrition leaves the bricks and mortars and goes to the worldwide web or the virtual reality, that's a risk. This is just  
35 something I like to point out. No matter who touches it or no matter what model.

I actually think the Amazon model is brilliant. They're leveraging an existing task that's already had a lot of thought and everything, and they're  
40 going to leverage that and they're going to try to tap into it, which is part of the way our model works where we tap into existing efforts. There's a lot of efforts the postal office have already done that we could tap into as an example. We could tap into the Amazon model. There's a lot of things that can be collaborated.

45

However, what about the 9,999,000 merchants that are going to be handling the Government's tax using the Government's hard-earned money? That, to me, is so fathomable how somebody could think about letting them manage that.

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**MS CILENTO:** Thanks. If there's no other comments, then – Mr Stilling. If you wouldn't mind introducing yourself again, please.

10 **MR STILLING:** Yes. I'm Keith Stilling, an independent international consultant. I thank my Canadian colleague – I worked in Canada – for that question. My question to Amazon is what are they going to do with their distribution centres in Australia? Are they going to import goods in bulk and pay normal taxes or are they going to allow those parcels to come into the country one by one and be assessed under whatever low value scheme  
15 we end up with?

**MS CILENTO:** Thank you. Amazon, of course, is under no obligation to answer those questions. Thank you. Sorry, name for the record again.

20 **MR KAMALAPURAM:** Yes, I will. Prashant Kamalapuram from Amazon. I'll address this gentleman's question first. Where we operate retail business in the country we actually import products into the warehouses in the country and then sell to customers. So it is our expectation that when we launch a retail business in Australia and store  
25 products in the warehouse in Australia we would be importing in bulk, otherwise we wouldn't have taken such large warehouse space. We would be paying local taxes. We would be paying GST on those transactions under the domestic provisions and not under the LIVG provisions.

30 I will address the next question. There were a couple of themes that were raised. One is about risk of offshore parties handling money. That risk exists in the current legislated model. So it's a point that we had raised that there may be unscrupulous sellers that may collect taxes, increase their prices and never remit that to the government. The model that we are  
35 proposing is not operated by Amazon by any means. It just is a normal postal channel or a carrier channel where an Australian carrier or the postal authorities are collecting that at the time of getting the package from the offshore suppliers.

40 Now, there is a consumer protection angle here. What if somebody has taken money and the package never comes? You can go to your credit card company and file a charge-back claim because you were promised some products you were never delivered; you can claim a charge-back. But as a practical matter, in the model that we are proposing my colleague explicitly  
45 described that our model is relying on enforcement against a small number



of domestic participants in the Australian economy versus trying to chase 5000 or 10,000 offshore suppliers or even more as the businesses evolve.

5 Our model is not operated by us, it's just any supplier who's handing goods to a carrier, postal authority over there were to send it into Australia will ultimately have to pay that tax that the carrier will have to remit because that will be charged to the suppliers. In that sense no parcel will come into Australia unless the tax is paid by the carrier. In the model that we are proposing we think it's a near complete model, at least as it relates to cargo  
10 in the immediate – very shortly and then postally, even if you take a transition period, as we just heard from Post, looks like they have the capability, they just aren't using the systems they have in the way they could efficiently use it.

15 So it's not like they don't have the capability. They can build upon what they have. I just heard Post say we get information from 20 countries already and the 20 countries that were rattled off seem to be the largest trading partners for Australia. That data exists; it's how you use it. The last thing is in the model that we are proposing we are not asking for changes to the CN22 or the 23, as the Post mentioned, because that's a much  
20 bigger effort of going and changing it at the WCO or the UPU. We're just asking as a commercial arrangement that Post says to whoever is handing them a package that, "Hey, my charge to take this package is X plus Y." X is the transport or the delivery charge and Y is the GST that they owe on it.

25 There's no need to make any changes. We don't want to make this into a big deal. We're trying to propose something that's far more simplistic than how people are thinking about it. At least we think it's simplistic but others may not – may disagree and it's a totally fair sort of disagreement  
30 and I have full respect for that. But the point that we're making is we're trying to make this simple seamless but really enforceable to achieve the twin objectives that were laid out by the Treasurer when this Bill was passed, which was levelling the playing field. We're asking for a model that will get to a much higher compliance rate than the 27 or the 54 and (2)  
35 getting the states the right amount of tax. That's the model we're proposing.

**MS BROADHURST:** If I can speak to the question about the risk of funds leaving the country and not coming back again. I'm not sure that's something any of us can solve for as long as the Australian Government is  
40 taxing a transaction that occurs offshore. It's necessary for the funds to be paid offshore and the only way that we can improve or reduce the risk that those funds come back again is to create a local point of accountability. Our model actually lowers the risks that payments when made offshore are held by the offshore vendor rather than remitted back to the Australian  
45 Government because there's a requirement for the carrier to remit that

payment to the Australian Government and that carrier falls under the jurisdiction of the Australian Government. It's actually a lower risk model in that area than the legislated model.

- 5     **MS CILENTO:** Thank you. If there's no other comments, then we will close proceedings and thank everyone again for their participation.

10     **ADJOURNED INDEFINITELY**

**[3.53 pm]**