



Australian Government
Productivity Commission

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

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MS CILENTO: Welcome everyone to the public hearings for the Productivity Commission's Inquiry into Collection Models for GST on Low Value Imported Goods. I'm Melinda Cilento, I'm one of the Commissioners on the inquiry; and this is Jonathan Coppel who has joined the inquiry in the last little while.

Can I begin by acknowledging that we meet on the lands of the Eora Nations and pay my respects to elders past and present. Just by way of background, as you would be aware, the Commission was requested by the Australian Government to undertake this inquiry in June 2017. We've been asked to report back to the Government by the end of October. For starters, that's a very truncated process by the usual Productivity Commission standard. So I appreciate those of you who've managed to put in submissions and thank you greatly for being with us here today.

The inquiry has been tasked with considering amendments to existing tax legislation in relation to the collection of GST on low value imported goods and, in particular, to consider the effectiveness of those amendments and whether there are other models that might be suitable relative to that which has already been legislated. As I said, we're very grateful for those of you who've taken the time to be here, particularly given the short timeframes. It goes without saying that because of the truncated nature, these hearings in particular will carry significant weight with us in preparing our final report.

This is the first public hearing for this inquiry. Following this hearing, we'll also have hearings in Melbourne on Thursday. Then based on the submissions provided, the evidence from these hearings and, of course, the research that we undertake as part of this process, we will prepare the final report, as I said, to Government, which is due 31 October.

We like to conduct these hearings in a relatively informal manner. But I should remind everyone that there is a full transcript being taken and that the transcript will be made public on our website and there are penalties which apply for making knowingly false or misleading statements. That's the sort of official blurb out of the way, if I can put it that way.

I should just give you some advice on what we need to do in the case of an evacuation. This is standard procedures. I wear a hat in the resources sector, so we take this all very seriously. If you hear a beep-beep, please stay put. One of the people from the building will come and tell us what the right thing is to do, one of the floor wardens. Whoop-whoop is the evacuation sound. If we do need to evacuate, we can evacuate directly out of the front of the building or out of the back of the building. That will take you to Castlereagh Street. And the meeting point is in front of the CBA

Bank on the corner of Liverpool and Castlereagh. As I said, the floor wardens will be here to guide us in the event that happens; and we should listen to them at all times.

5 We'll be inviting participants forward obviously to make some statements and then there'll be some sort of Q&A following that. There will be an opportunity at the end of today's hearings for people to come and reflect on things that they've heard, if they so desire. I think that's all I need to say. With that, I might invite the representatives from the Australian
10 Retailers Association forward, if I could, please. Gentlemen, if you wouldn't mind just stating names and affiliations for the record and then please feel free to make any opening statement.

15 **MR ZIMMERMAN:** Russell Zimmerman, Executive Director of the Australian Retailers Association.

20 **MR MICHAEL:** Heath Michael, Policy and Government Affairs Director of the Australian Retailers Association. Russell will be making an opening statement.

25 **MR ZIMMERMAN:** Thank you very much. We appreciate the opportunity to present in front of the hearings. The ARA represents the leading national retailers in Australia across the full range of retail products and services. Members of the ARA include Australia's most trusted
30 retailers from the country's largest department stores, supermarkets, specialty retailers, electronics, food and convenience chains, to mum and dad operators, with around seven and a half retailer members across the nation, representing more than 50,000 shopfronts.

35 The ARA is, by far, Australia's largest retail organisation with coverage from the country's very largest retailers to small and medium businesses. The ARA ensures long term viability and position of the retail sector as a leading contributing to Australia's economy. We agree that the fact that neither the supply, nor the importation, of such low value goods is
40 subject to GST represents a significant risk to the integrity of the GST system. It also places Australian-based suppliers at a growing competitive disadvantage.

45 The ARA has been the only retail organisation working all the way through this process with the federal and state governments to reduce the low value threshold and provide a level playing field for Australian-based retailers. This process has been going on for several years and many potential collection models have been looked at. The first significant consultations were commenced by the then Assistant Treasurer, the Honourable Bill Shorten. We were very pleased following the work

commenced by Mr Shorten that the previous Federal Treasurer, the Honourable Joe Hockey MP, announced the change following the Council on Federal Financial Relations Tax Reform Workshop.

5 The ARA provided a submission in response to the then Tax Laws Amendment (Tax Integrity: GST and Digital Products) Bill 2015 when first exhibited following that budget. We provided strong support for that important GST digital integrity measure. We also urged the Government to consider applying the principles in closing this loophole for digital
10 products to tangible products purchased offshore.

 We are very pleased that the Government has, since that time, also reached agreement with the states and territories to close the low value threshold loophole for the offshore purchases of tangible goods, which has
15 proven offshore identities will over time comply with Australian tax law. We are very pleased that both the Government and Opposition have expressed their strong support for the changes and that legislation has passed, albeit that implementation has been delayed for 12 months.

20 Firstly, the ARA fully supports implementation and collection as of 1 July 2018. Secondly, the ARA has supported the Government's vendor collection model as a first step in collection and the quickest and simplest means on initial collection. None of this means retailers do not believe that the Government should look at other models, improve collection models or,
25 indeed, introduce new collection methods. In fact, retailers and the ARA have always said we wanted to achieve as close as possible to 100 per cent collection rate as is practical.

 For these reasons, retailers believe that a transporter liability model is
30 the next most practical step in implementation, which needs to also be operational as soon as the 1 July 2018 commencement date. In conjunction with this measure, we also believe issues around the personal importation needs to be addressed through the postal system. While the postal option will take longer, likely rely on international agreements and face more
35 difficulties, the only way to pick up and collect the maximum excise and GST revenue will be to implement postal measures to support the other implementation measures.

 The retail sector wants to make it clear to Government and regulators
40 that collecting only part of the GST revenue on low value items from overseas is really not enough. We will continue to work with retailers to make sure as much revenue is collected as practicable. The retail sector has always supported a speedy, simplified system for collection of low value GST as an initial step in the full collection model or models.
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While the vendor model has appeared to be the quickest and easiest model to implement, ARA believes that there may be significant flaws in the amount of tax that it will collect. We have always said other options need to remain open to broadening revenue collection. Our view is a model which requires cargo and freight companies to carry not only the obligation but liability on collection is an effective way of collecting. We understand this is as simple as the freight system recognising the item is going to Australia and calculating tax against the item.

Australia already has significant revenue border collection issues on excise items which can also be addressed by this simple system. We understand this has been implemented in a number of European jurisdictions. Further, we believe that, as indicated through all our consultations with agencies over the journey of this tax being implemented, it is possible to have the postal system address collection as international postal agreements are being put into place.

While the postal solution won't be immediate, over a period of several years this final stage in the collection model would be addressed which would deal with both excise and low value GST non-collection problems. Government agencies will need to have the correct powers to enforce excise and GST tax collection. While the excise and tariff role has been reduced for Customs, the reality is significant revenue is lost through personal and cargo importation, an obligation which those cargo and postal services should ultimately carry, an obligation which Customs and the Australian Tax Office should police to guarantee compliance.

As core principles, applying the GST to digital products and other imported services sourced offshore is not a new tax. It is the appropriate application of the GST to products which would, if purchased domestically, attract the GST. International corporations should be paying their fair share of GST in Australia based here or not. This move levels the playing field for Australian-based retailers of all forms to overseas retailer competition that isn't based here.

There has been a suggestion as to the need for an information and education program to be run to assist the implementation and compliance of these measures. The ARA sees this could be beneficial in stopping inadvertent non-compliance. No system is perfect. There are still holes in the Australian-based GST collection system. As one of our member book retailers told the ARA, collect two of the overseas booksellers and you'll capture 80 per cent plus of the untaxed book volumes entering this country. This would fix a specific product category to some extent but also shows, even with limited importers, there is still a considerable hole in the revenue.

5 If overseas retailers, freight forwarders or anyone else tell you they are not prepared to collect it, it is their own fault. They have been completely aware this legislation has been coming and completely involved in consultations just as we have been. They need to take responsibility for the products they are handling and taxation responsibilities around those goods. We are not the only country moving into this area. Nearly all of our competitors have or are nearly or have as much lower threshold as Australia.

10 Another furphy being floated in by those who do not want to pay their fair share of tax. We note that there is a proposed two-year review after implementation. We agree that this is an important mechanism to address issues as they arise in what is a continuing area of taxation challenge, along with observing what other jurisdictions might do in addressing these issues, given Australia is one of the first movers in introducing these measures.

15 Australian operating retailers have been happy with the general support from Government, Opposition and most of the Senate crossbench parties to date. However, the delays and stalling by major overseas players in collecting this tax has not been acceptable. This reform is a long time coming. The retail sector is frustrated with the delay that occurred after the last Senate hearings are imploring government to implement this no later than 1 July 2018. Our members thank the Productivity Commission for the opportunity to be involved in today's hearing and we would be pleased to discuss issues related to this with you further. Thank you.

25 **MR MICHAEL:** I might add that we will putting in a formal submission. We were finalising some of our presentation today with major retailers as late as 7 o'clock last night.

30 **MS CILENTO:** Thank you for that. A formal submission, of course, is always very welcome and thank you for your opening comments, Mr Zimmerman. Can I perhaps just start by perhaps getting a little bit of background information, if you can assist with that or take it on notice, as needs be. I'm interested in the impact of online imported goods on your members. I was wondering if you have any sense of proportion of online imported goods and how their own business models have evolved in terms of – are they now selling more online and what part of their business does that make?

40 **MR ZIMMERMAN:** If I can take the second part of that question first. Online represents roughly 7 and a half per cent of the total 310 billion turnover. So I think that's about 24 and a half, 25 billion, I think, from memory, is the figure. What we have seen since around 2008 is virtually every retailer in Australia now – and certainly the major retailers – the majority of them sell online. There would be very few exceptions to that.

That has come about purely and simply because of the need to ensure you can be available to a consumer 24 hours, seven days a week, 365 days a year.

5 I think it's fair to say that Australia has been very slow in the uptake of online retail and I think it's certainly been recorded that there has been various retailers who all said online won't be a significant impact into Australia. However, the people who have said that in the past certainly wouldn't be saying that right now and most definitely online is a very
10 integral part of the retail landscape.

I think it does vary from sector to sector. I think there are some sectors that are impacted much harder than others. As an example, the clothing sector would probably be one of the sectors that's been really hard hit by
15 overseas retailers. There are certainly other areas that are impacted in Australia but particularly clothing/footwear would be one that I would name. Probably small electronic items would also be very hard hit as part of the industry. But it's certainly not limited to those. There's plenty of other examples that would be – of retailers that have been detrimentally
20 affected by the fact that they've got to compete with overseas retail.

MR MICHAEL: It is worth noting that not just bricks and mortar but existing Australian-based online retailers see this as a significant issue because their overseas competitors aren't paying the tax.
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MS CILENTO: Yes, sure. Do you know if any of them export themselves?

MR ZIMMERMAN: Certainly some retailers in Australia do sell overseas, absolutely, yes.
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MS CILENTO: Would that include some of your members?

MR ZIMMERMAN: Yes, absolutely.
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MS CILENTO: Do you know how that business has grown?

MR ZIMMERMAN: I'd have to take that on notice. I don't know to what extent that is happening. But I know there are some retailers who are
40 definitely selling overseas.

MR MICHAEL: What we find is it tends to be more specialist categories, so those dealing with – we've got a wine member who we know specialises into the Chinese market, jewellers, et cetera. It will be very much specialist
45 category.

MS CILENTO: Have they raised any concerns that might differ to those of your – the rest of the membership that's not exporting around what this measure might mean for them?

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MR MICHAEL: I know in the alcohol space we've had some of them have concerns not just on the GST element when it comes to the import side but also the excise side, which is where the postal and cargo piece is quite important for our membership base, because while there's not many products that excise applies to – and I know that this is not what this Commission is addressing – we know from all the evidence we've been supplied around the excise issues that's almost identical to the now consumer tax on everything that's coming in. There is a significant amount of lost revenue to the Commonwealth in the excise piece as well as the GST piece for the state treasuries.

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MS CILENTO: I guess my question was more to the point that those of your members who also export are also supportive of the legislation - - -

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MR ZIMMERMAN: They are in a majority of cases.

MR MICHAEL: And we have heard claims along the way that Australia could find itself in difficulty when it comes to international free trade agreements. Any response to that would be some of those jurisdictions have vastly lower collection rates than the thousand dollar rate that we've had, \$20, \$60, et cetera. I think it's a very spurious argument put up by some of those claiming that we could be in breach of trade agreements.

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MS CILENTO: There was probably a more practical point that's already been given to us in a number of submissions, which goes to the issue of particularly the vendor model itself and the potential impost on Australian exporters; should they be required to do the same thing in the markets that they sell into? So I was just interested whether that was an issue that had been raised through - - -

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MR MICHAEL: It hasn't been raised with us.

MS CILENTO: This is going to be difficult too because I recognise there are a vast array of different products and the like. But is the sense from your members that the GST rate is a significant competitive disadvantage in terms of pricing with online imports?

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MR ZIMMERMAN: Absolutely. One of the things that comes through very, very strongly – and I alluded to it – the fact that of the delay. We've had retailers ring us up and say to us, "What is the government doing? Why

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hasn't this come?" They were expecting it to happen on 1 July this year. It didn't happen. I've actually had a number of retailers and one in particular I can think of in the far west who turned around and said, "Well, I may as well close my door up. If this isn't going to happen, this could be to the detriment of my business."

There's a fair argument. If you look at the retail stats over the last 12 months I think there's something like around 60-odd thousand jobs being removed out of the retail industry over the past 12 months. I would not want to say that every one of those is because of the fact that the threshold hasn't been lowered. But I think it is fair to say that some of those retailers may have remained in business had there not been an issue on this tax.

MS CILENTO: Just to close the loop on my first question too, so 7 and a half per cent of all retail is online. Do you have a sense of what proportion of that 7 and a half per cent is imported online?

MR ZIMMERMAN: A little over half.

MS CILENTO: So half of the 7 and a half?

MR ZIMMERMAN: Yes.

MR COPPEL: Do you have any idea of how that is changing over time vis-à-vis domestic sales?

MR ZIMMERMAN: There's two things that we do know. The first is that in the US we have noted online is around about 12, 13 per cent, and similar in the UK. It would be fair to say that over a period of time – remembering that I did say that Australia was late entry into the online space – we have a view and it's held fairly strongly by retailers that online will move to around 12, 13 per cent over a period of time. So you could probably therefore say as the industry grows that around 50 per cent of that 12 and a half, 13 per cent will be from overseas retailers.

MR MICHAEL: I think it's fair to say that as business models are changing, you will see an increasing number of Australian retailers operating major distribution centres distributing product within border. But that is also based off having the same competitive advantages as the overseas operators who are currently able to do that and pay no GST.

MS CILENTO: Just to be clear, the 10 per cent GST is the major competitive disadvantage?

MR MICHAEL: I had a member phone me last week on this issue and

they flagged this being a major piece around an investment that they were going to make in a distribution – a Western Australian based retailer that ran a distribution centre that they were looking at opening in the eastern states to help speed up the delivery of their product.

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MS CILENTO: If they're prepared to be used as a case study, that's always - - -

10 **MR MICHAEL:** I might be able to get them to confidentially pass something on.

MS CILENTO: We do take commercial-in-confidence submissions. That sort of information is always helpful to us. Did you have any questions on those sort of more general retail trade? Because I was going to move a model otherwise.

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MR COPPEL: I want to ask about particular models, so I'll let you start and continue.

20 **MS CILENTO:** I guess just to start by way of clarification just so I make sure I've got your argument clear, so you're supportive of the vendor model as the initial easiest, simplest way of starting to collect GST, but have concerns around compliance rates.

25 **MR ZIMMERMAN:** Absolutely.

MS CILENTO: Therefore, the amount of revenue that would be raised.

MR ZIMMERMAN: Raised by it, yes.

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MS CILENTO: Then you said the transporter model should be introduced as well as the vendor model.

35 **MR MICHAEL:** At the moment that would be our thinking if there was clear evidence that a transport model would be more effective than a vendor model. Certainly need to look at that. But at the moment our members have been very clear; we want implementation of vendor AAA1(?). But we're not going to say no to other potential models that can collect additional or vastly more revenue than the vendor - - -

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MR ZIMMERMAN: Or hopefully collect - - -

45 **MS CILENTO:** I must have misunderstood because I thought you were also saying that you were looking for the transporter model to be implemented next year or something like a transporter model implemented

at the same time.

5 **MR MICHAEL:** Yes, and we – if it were possible to, and we have some information that leads us to believe that it is possible. I know there was a conversation with a major retailer in the last 24 hours where they believe it was possible to. We, like everyone here, are struggling to get a lot of this information together. I know you’ve had that conversation with the CEO last night. But we are hoping to get a bit more together about that to present as part of our submission.

10 **MS CILENTO:** I guess I’m interested in if it’s not 1 July, what are the things that you’re sort of looking for, the sort of signposts or markers around which you would then say, “Well, the vendor model needs to be supplemented or should be supplemented, “ and by when? I think you then
15 also talked about a transporter model and, indeed, a customs model as well. So it’s sort of a bit all in.

MR MICHAEL: On the transporter cargo model, we are concerned that the collection rates will be reasonably low with the vendor model. I don’t
20 think anyone’s really said anything other than that. It could very well be below 50 per cent. I think even treasury’s figures were not painting the collection rate in a great light. If through this process and through information we’re able to gain we see another model like a transporter model that can work very effectively as of 1 July next year – our members
25 want as much collected as soon as possible. If there is a more efficient model or a model that can be implemented alongside the vendor model, they will want it to happen as soon as possible.

MR ZIMMERMAN: I think it’s fair to say they’d be very, very upset if
30 there was a further delay beyond 1 July 2018.

MR MICHAEL: And if there weren’t further attempts to improve collection rates.

35 **MR COPPEL:** You made the point, Russell, I think twice, that should collect as much revenue as practical. I want to ask what do you mean by “practical”? When does practical no longer be practical?

MR ZIMMERMAN: Well, I guess if the cost of it becomes greater than
40 the collection, that’s where you’ve got to really start questioning it, for a start off. But we would like to know that if the vendor collection model was put forward at this stage and it was impossible to do a different model within that timeframe, that you would look at implementing the vendor collection model to then bring something in as quickly as possible to collect
45 as close to 100 per cent as you can get. Now, I don’t know what that figure

is. It might be 98 or 95 per cent. But whatever it is, we need to get as much of that collection done as possible. Otherwise you fail the retail system as it is at the moment.

5 **MS CILENTO:** Sorry, can I just jump in?

MR COPPEL: Sure.

10 **MS CILENTO:** It sounds like what you'd really like is something other than the vendor model if it could be implemented on 1 July 2018.

15 **MR ZIMMERMAN:** Absolutely, if it was going to be guaranteed to collect more money than the vendor model; absolutely, yes. I think it's fair to say we're not welded to that model. Up until the Senate Committee, we hadn't had anything else given to us to say there might be a better model than the vendor collection model. If there is a better model that can be implemented on 1 July 2018, we will be wholeheartedly supportive of it, particularly if it was going to ensure a greater amount of money was going to be collected in the way of the tax; absolutely.

20 **MR COPPEL:** Just coming back to the question I asked earlier, tax administrations often look at the cost of collecting relative to revenue and usually that would fit within the single digit fraction. What you've said is that you think the point at which it becomes impractical is when all revenue collected is at least offset by the cost of collecting that revenue.

25 **MR ZIMMERMAN:** If it is, you wouldn't be doing it, would you?

30 **MR COPPEL:** No, but I mean, I'm saying that many bases really would be – 1 or 2 per cent would be spent on collecting the revenue. That's well lower than a hundred. It doesn't make sense to spend 70 per cent of the revenue collected in collecting that tax or up to a hundred. That's my question to you. I mean, it seems like a very high benchmark that - - -

35 **MR MICHAEL:** I think when we refer to as close to a hundred per cent of – the potential missing revenue – the overseas lost GST revenue, we would like to see as much of that collected as possible and trying to achieve as close to a hundred per cent as possible. In the Australian GST market a hundred per cent isn't collected. We all know that. There will always be gaps in the level of collection. When it comes to the efficiency piece of collection, we completely understand and have from day 1 that you don't get the ATO to collect tax that loses money, that it has to actually make money. I'm hoping that kind of answers that question. There still needs to be that core principle of trying to achieve the maximum amount of GST collected on these goods.

- 5 **MS CILENTO:** One of the things that the Productivity Commission itself had sort of struggled with, albeit a number of years ago, was the efficiency of tax collection and the view that you could actually end up, through a transporter model or customs model, effectively collect tax without spending more money doing it. Is this something that your organisation has done more work on as doing – working with others to try to get a handle on whether there are efficiency gains in that?
- 10 **MR MICHAEL:** We understand there are a number of European jurisdictions that now put a transporter cargo obligation that they're responsible for collection and remittance. I've, after having it referred to, dug up some documentation in regards to that and happy to pass that on over the coming days. We understand that is quite an effective method in some of those European jurisdictions. So if an item is flagged as coming to 15 Australia, the transporter cargo company automatically has to apply GST to the transport cost of that product and remit it. At the moment they take no liability or responsibility for what's in that product.
- 20 **MS CILENTO:** They then collect that from the person - - -
- MR MICHAEL:** Yes, as soon as it's flagged it's coming to Australia.
- 25 **MS CILENTO:** Do you know what their success rates have been in terms of as a transporter collecting revenue and what happens if they can't? Because the other issue is for consumers – what the process is for them in terms of the cost for them and delay and all the rest of it.
- 30 **MR MICHAEL:** There shouldn't be a delay. I've got a Copenhagen economics paper that I've been studying as part of this. There's an indication there that around 98 per cent of cargo products in these jurisdictions is collected. It's a very simple piece of you go to freight the item, the item has a value, the GST automatically gets applied as soon as it's flagged it's coming to Australia. That then gets remitted by the third 35 cargo company in the Australian GST environment. There's no delay to the actual consumer. It does appear to be quite an efficient model. I do need to get more information built around this. Unfortunately, I've got a Senate hearing on Thursday that's really mucked me around with pulling a lot of information together on this piece. But we are hoping that we can 40 supply a fair amount of evidence that there is a quite efficient model to pick up some of that missing revenue. That is working in some of those European jurisdictions.
- 45 **MS CILENTO:** I think, as I said at the beginning, and one of the things that we have been specifically tasked with is looking at alternative suitable

models. As Jonathan is alluding to, one of the things that we're really turning our mind to is what is suitable in the context of the cost relative to the revenue raised. But also we've been specifically tasked with taking into consideration potential impacts on consumers and small business in particular. I think one of the perhaps interesting complexions, if you like, is also trying to reflect this in an Australian context in terms of distance from markets and also the size of our market and what is perhaps more efficient when you've got a scale of a European marketplace relative to Australia.

They're just things that as you're looking at the evidence that you might have that we would certainly be interested in getting some perspective on because, as I said, our starting point when we looked back at the work the Productivity Commission itself has done is that there is a struggle there in trying to make economic sense of collecting it, notwithstanding the broader principles which we would agree with.

MR MICHAEL: We certainly understand that and hopefully we'll be able to get the – I can't remember the submission date off the top of my head. I think it's the 30th, from memory.

MS CILENTO: I think that's right.

MR MICHAEL: I've got that many extensions on submissions at the moment I'm losing track of them, but I do have the diary note.

MS CILENTO: Did you have any other questions?

MR COPPEL: You made several mentions to developments in international postal agreements that suggested that model, the cost of collection may be coming down. Can you explain a little bit what's going on that would be doing this?

MR MICHAEL: You've had the long conversation on this one.

MR ZIMMERMAN: Our understanding of this, I think what they call group 1 or tier 1 postal services and as the ability becomes for various countries to get into this tier 1 or group 1 postal services, the opportunity to remit via the postal service may be more feasible.

MR MICHAEL: Or through the international agreements that were imposed and the obligation being carried by – a bit like the cargo model being carried by the postal service. It will rely on those agreements coming into place. We don't see this as being an immediate or quick fix. But it is something that, as I alluded to earlier, we know our members are seeing

large volumes of alcohol and tobacco products coming through postal service at the moment with, to be quite frank, no collection happening when it comes to excise. It's a broader issue that Government is going to have to address.

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MR COPPEL: One other model that hasn't been looked at that closely in past reviews on this issue, to my understanding, is the collection point through the payment system or at the point of payment. I'm wondering whether in your work the retail association you've got any perspective on this.

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MR ZIMMERMAN: We certainly have had that put to us, that it would be done through say the credit card/banking system. My understanding of that is that beyond the fact of whether or not the schemes, et cetera would or would not be prepared to collect it or would want to collect it, my understanding of the problem with that model is that there is quite a larger amount of product comes into Australia. For instance, as an example, mouthguards that people import. They are GST-free. How do you determine as a financial institution what is or is not GST-able?

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The model has also been suggested that you charge everybody GST. That's great, you pick up everything irrespective of whether it's GST-free or not. Then the consumer – you would then rely on the consumer to then go and make a claim back on anything that was GST-free. I'm not quite sure how that would work in relation - - -

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MR COPPEL: It would just not be a problem for any model.

MS CILENTO: I was going to ask the same thing about it. If I'm a cargo company and I've got a box of product, how do I – or, for that matter, an overseas vendor – how do I know that mouthguards are GST-free?

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MR ZIMMERMAN: You will have to have an understanding of what is and is not GST-able in Australia.

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MS CILENTO: An overseas vendor is more able to do that than a payment - - -

MR ZIMMERMAN: Well, the payment system doesn't get any information on it as to what's going through. It really gets who the supplier is, who the account is. There's various details they do get, but they have no idea what the product is.

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MS CILENTO: That's not able to be collected?

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MR ZIMMERMAN: Not that I'm aware of.

5 **MR MICHAEL:** The current metrics – and I've had this raised with me several times. Unless you saw major jurisdictions like Europe or the US require payment systems to carry a lot more data than they currently do – the banks, to some extent, will have some of that data, but only to some extent. The payment systems don't carry the data. They can't identify a product at the end of the day. We have looked down that path. We certainly had discussions on it that's come up as part of a merchant payments group.

10 We've got a lot of payment specialists. No one can see how – unless there's a seismic shift in carrying all that additional information. I was using the new payments platform as an example, which has just gone through its umpteenth delay in the Australian market. We were just talking about Australia and Australian banks. With all of that data that can go in as prefill, et cetera, how long has that taken? It's well off being completed is our understanding.

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MS CILENTO: I guess the question is with that in the process – you used the language about a seismic shift in data collection. In the context of the new payments platform, would that be a seismic shift?

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MR ZIMMERMAN: I'm not sure whether you can actually collect it from the overseas supplier through the Australian bank.

25 **MR MICHAEL:** It's banked with the new payments platform. It's not payment system. So this is account to account and it's only the Australian banks. That's fundamentally the issue that you've got, unless – having sat in the RBA and having had it explained to me, this doesn't apply to payments going offshore at all.

30 **MS CILENTO:** It's been raised with us, so we were just kicking - - -

MR ZIMMERMAN: As much as I think it would be a really nice, simple, easy solution, I don't think it is.

35

MR MICHAEL: Like I say, to get the four Australian banks to get that data sharing right has been a significant challenge. It should happen at some point quietly. It's going to be a long process.

40 **MS CILENTO:** I don't have any more questions. Anything else from you?

MR COPPEL: I'm fine.

45 **MS CILENTO:** Thank you, gentlemen. We do look forward to written

- submissions. We have sympathy for the amount of submissions that organisations like yours are required to prepare. But they are treated with obvious significance by the team. Particularly in this inquiry, as I've said, because we haven't gone through the usual issues paper draft, they do carry a particular significance. The deadline is there. I have to do the team a favour and say obviously the earlier we get them in the more time the team has to consider them. But we do appreciate the time pressures you're under as well.
- 10 **MR MICHAEL:** And I don't plan on asking for an extension for this one.
- MS CILENTO:** Thank you.
- 15 **MR MICHAEL:** I've got most of what we need. Thank you.
- MR ZIMMERMAN:** Thank you very much.
- MR COPPEL:** Thank you.
- 20 **MS CILENTO:** I might ask Mr Keith Stilling on behalf of Worldwide Consulting in Customs Administration and Technique. Keith, is it just you or have you got colleagues that you would like to keep you company?
- 25 **MR STILLING:** It's just me and my glasses.
- MS CILENTO:** Excellent.
- MR STILLING:** And my colleagues.
- 30 **MS CILENTO:** When you're settled, an opening statement would be fantastic. But I would, of course, like to acknowledge that we have already received a submission from you; so thank you very much for that.
- 35 **MR STILLING:** Thank you, Commissioners, for the invitation today. May I set an example by taking my coat off?
- MS CILENTO:** Please. I already have. It is rather warm in here.
- 40 **MR STILLING:** Thank you so much. Again, I thank the Commission for the invitation today. I'd like to introduce Margaret Milne(?) who's a retired Customs broker and one of the best, I might say. She's a former president of the New South Wales Brokers Association. And two other members of my team. I must say that they're doing this on a voluntary basis. I won't mention their names. But one is an experienced Customs broker, also a
- 45 former president of the association. We've all been working on this since

2012, not all the time. Politics have intervened from time to time.

5 I have my own international business as a consultant overseas. I try not
to work in Australia. I distanced myself from my previous past as a
Customs officer and an SES person for half my working life. But my links
with the industry and my support that I'm getting from the industry – well,
these representatives – really stem from way back in 1976 when we
developed quite a major commercial system. At the time it was the first
national system in the world to do a Customs commercial. And we had
10 Customs brokers working with us fulltime to do that.

Our links were very close and those Customs brokers the airlines
refused and it took 15 years before the airlines joined with Customs with
the brokers, went out on a limb. For the price of a motor vehicle they bought
15 a printer and a PC, if you like. It wasn't called a PC then. Those people
wanted to be seen as professional and they really are. I wonder today how
Customs would manage without them.

Now, the Commission has a copy of my opening statement, but I'll now
20 read it to you. Collection of taxes on low value imports. This is a Customs
issue. But I would like you to keep in mind my Customs solution merges
into the ATO proposal to achieve not 25 per cent but a hundred per cent if
you want to go that far. It could be done within the same sort of timeframe,
dare I say, as the Productivity Commission takes to do their job.

25 Internationally, Customs is recognised as the agency responsible for
controlling importation of goods, including controls on prohibited goods
and collection of taxes at the border. This includes GST. Where Customs
could not cope efficiently with increasing imports, a decision was made to
30 increase the value to \$1000 per shipment before taxes would be collected.
That decision was a serious error of judgment as online shopping was
emerging at a rapid rate and buyers took additional opportunities to save
paying more taxes. For example, a mountain bike could be imported in
parts.

35 Australia stands alone in setting \$1000. New Zealand followed
Australia, introducing \$400, but their rate of GST is 15 per cent. Other
countries have much lower values, as you know. The Productivity
Commission report in 2011 found there were strong in-principle grounds to
40 lower the low value threshold exemption for GST and duty on imported
goods when it's cost-effective to do so. Very, very important words.

The 2012 taskforce report followed without finding a solution. I think
people are generally putting too much faith in that report. Then the Bureau
45 of Statistics was promised 1.2 billion to collect low value import data. In

other words, there was no political announcement about doing anything. The so-called threshold of \$1000 is the same in Australia as the threshold for requiring a formal import declaration. The word “threshold” can mislead people from time to time.

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That threshold for import declaration does not have to be the same as the threshold, if you use that, for low value goods. If my system is successful, the system will allow this threshold to actually be increased to say 2 and a half thousand. Internationally, the formal declaration threshold is climbing now. Two and a half thousand in US and Canada. This is sensible because import declarations prepared by brokers cost in the order of \$100. Now, I might add that last night in my team discussions we found that, in fact, the figure was more like \$80 to the government and another 50 or so to the broker.

15

That’s a significant part of the value of the goods. Forwarders in US are seeking a separate tax-free limit of \$800. I now find that they’ve actually achieved that. Imagine if countries like Denmark where I was talking to them recently with a VAT of 25 per cent were to follow that. No wonder retailers are looking to a level playing field. International online shopping has increased rapidly over the past decade with possibly \$5 billion lost in GST alone since the taskforce report.

20

The states have lost that revenue. That’s a revenue loss of \$100 a month, not including Customs duties. I know that Customs duties are not part of the terms of reference, but my system allows that to happen if the Government wants to do it. It’s a good reason for an early implementation. I’m not satisfied with 1/7/18. That’s the deadline for the ATO proposal.

25

Now, I’m offering a solution, not a model, the solution, including options which suppliers and their buyers can choose. If door-to-door delivery is required – and this is the most popular way of delivering for the buyer and the seller – the supplier includes taxes in the same way as he includes freight. In fact, it’s easier because GST is 10 per cent and freight is going to vary by weight and by country and whatever. Not hard.

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Suppliers buy revenue stamps from say the post office. They assess taxes and place stamps of that tax value on each package. The revenue stamp is a pretty smart little document. It’s a combination of an invoice and an assessment of tax and it’s a receipt. And it works. Option 2 for non-compliers will be dealt with in a very similar way. Those stamps in a separate series will be assessed by Customs brokers on arrival in Australia. A handling fee will be applied by the broker. The international standard fee seems to be about \$20. Any residual packages where no taxes have been paid may be returned to the sender.

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45

Both options provide further opportunities to ensure prohibited goods are not imported. I say that deliberately because more people are now being involved, particularly Customs brokers. Customs brokers often do things they're not asked to do. They see something suspicious and they tell us. So there's an advantage in the control mechanism as well.

Phase 1 may be implemented within three to six months, given approval, and following a simple tariff proposal to reduce the \$1000. That's the threshold for free. To simplify change a two-step reduction, first to \$500, then to a lower amount, say \$200, may be the right balance, having regard to \$20 collection fees.

MS CILENTO: Sorry, what was the lower amount?

MR STILLING: \$200. Australia Post appear the obvious choice for providing and delivering stamps ordered online. Records of sales by suppliers and Customs brokers with access to Customs audit would be an important means of providing audit controls. The ATO voluntary system proposed by treasury will not work alone, nor would it be fair to any who do comply. If I may repeat that again. The ATO voluntary system proposed by treasury will not work alone, nor would it be fair to any who do comply. Would that be a level playing field?

The 25 per cent compliance rate has been publicly stated at the Senate Committee. You have to ask why any overseas supplier would volunteer to pay taxes to another country. That's probably your most serious question. Note that a hundred per cent recovery is possible from the use of revenue stamps. But a lesser sensible minimum amount of tax is preferred. For GST only, this may be \$10. However, these parameters may change later if Customs duties are included and certainly when approved suppliers review their taxes on a periodic basis.

In other words, I'm saying if you combine my model with tax and my model envisaged stage 2 tax – and it says so years ago – if those two models were merged, (a) you can do it sooner and (b) one steps into the other and the more approved suppliers you have the better outcome you'll have for those overseas suppliers as well. \$100 million a month roughly is being lost today. It is time to proceed. I have some other matters I'd like to bring to your attention if I may.

MS CILENTO: Sure.

MR STILLING: If I can find them. Could I give you the opportunity for questions and then come back to this?

MS CILENTO: Absolutely.

MR STILLING: Thanks.

5

MS CILENTO: Can I start on the last number. The \$100 million per month, how did you arrive at that number?

MR STILLING: How does anybody arrive at that number? Nobody knows. Nobody knows, because they're informal clearances. There's no record – I don't know where the stats spent their 1.2 million on the system or not. I don't know that, and perhaps somebody here does. But I've been observing this since 2012. The figure of 1.2 billion has been everywhere since that date. It's never been updated by the rapidly increase - - -

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MS CILENTO: I'm just interested in your number of 5 billion and just a broad understanding of what - - -

MR STILLING: Five billion is five years.

20

MS CILENTO: So a billion dollars a year.

MR STILLING: If you look at the NAB details, the taskforce details, anything you read in the newspapers, it's all around the billion dollar mark. But nobody really knows.

25

MS CILENTO: Another question I was going to ask straight off the bat and now I've just forgotten.

MR STILLING: Can we both have a break?

30

MS CILENTO: I'll start with this then too. You started off by saying people are putting too much weight – and I can give you a moment if you would like a moment. But I've got questions and we can come back to that, if you like. That there was too much weight being put on the parcel collection taskforce report or the long acronym which I forget. But that too much faith had been put on that report. What do you think the limitations are? Where were the mistakes or failings of that report that we need to be taking into consideration? Because it's obviously a piece of work that sits there for us to consider.

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MR STILLING: We don't have time. Look, honestly, I don't want to talk about politics. I don't think it's proper. But I doubt the basis of that report.

MS CILENTO: In terms of the cost of collection?

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MR STILLING: Well, think of the members on the committee. Australia Post who had an interest shouldn't have been on - - -

5 **MS CILENTO:** I guess I am interested if there are particular conclusions that would reach that you feel - - -

MR STILLING: No, my comments are very general.

10 **MS CILENTO:** Am I correct in summarising the option you're proposing as being one which is effectively a vendor option but with rather than vendors remitting GST to the ATO, they purchase the stamps as a means of - - -

15 **MR STILLING:** Okay. There are two issues here. The second issue is the ATO model is what I envisage really as stage 2 where Customs and tax as a joint team audit the suppliers before they're approved to be part of that system. That's my version of the ATO system. But before you get to the ATO system I want suppliers to comply and to be seen to comply and
20 preferably to give some time and some experience of their performance before they're approved. We don't have a good history of suppliers' cooperation.

MS CILENTO: The stamps is a means of demonstrating compliance,
25 basically.

MR STILLING: Yes. Let me regard the stamps as the first system, what you do first. Within that stamp system there's two or three options. The first option is door to door where everybody wants door to door. So it's up
30 to the supplier or any one of those chains – anybody who wants to put the stamp on can, because there is a problem in defining who's responsible. So it doesn't matter who puts the stamp on. They've bought the stamps and the money is in the bank. They put the stamp on each parcel.

35 Now, that is an additional effort on the supplier's part; there's no doubt about that. If they're large suppliers and they have good performance and they're approved to be a regular supplier under the ATO model, that's what they do. But there will always be a residual of people who will not put the stamps on the parcels. In those cases Customs brokers will charge a fee to
40 assess and put the stamp on the parcel. So they will buy a different range of stamps and, again, the money is in the bank because they've bought the stamps.

MS CILENTO: Who pays the Customs broker?
45

MR STILLING: The buyer.

MS CILENTO: The ultimate recipient of the parcel.

5 **MR STILLING:** That's right. It happens today with different fee structures and so forth.

MS CILENTO: Where does the auditing and vetting of approved accredited - - -

10

MR STILLING: Whatever system you develop, whether it's the ATO model or whether it's the stamp model or whether it's the basic system model that goes on today, is audited and should be audited. Now, the extent of that audit is a matter of the auditors. Depending on your value of the suppliers is the extent that you audit them. The bigger and more doubtful suppliers will get more audits.

15

MS CILENTO: Is the model or the option around the purchasing of revenue stamps, has that been adopted anywhere?

20

MR STILLING: It's not new and I believe – no, you're not old enough, Commissioner, to remember that us older gentlemen used to have to purchase tax stamps for our tax system. That's going back a few years. But I believe in UK they do use revenue stamps for a particular purpose, but I haven't followed that one up.

25

MS CILENTO: The practical implementation of it is interesting because there's a couple of things that sort of spring to mind. If we're going to be cynical about circumvention and all the rest, there's obviously the risk of under-reporting the value of the transaction. There is the little wrinkle of not all goods being subject to GST, which we heard from the previous participants around – so there is an issue around if you're a supplier or a transporter having some idea of whether GST applies.

30

MR STILLING: There will need to be behind this system a very small computer system roughly six man months I would think – and I'm talking about fourth general computer system, so we're probably up to umpty-seven by now. But you need a small computer system where information is available on the net to all suppliers of what the system is about and how you do it. The supplier would be required to register, same as the ATO model, I guess. The supplier would have the opportunity to query whether his product was subject to GST or not. But in most cases, of course, it is. As far as the wrinkles go, there's always people trying to cheat the system, unfortunately.

40

45

MR COPPEL: May I ask also a question about the model? As I understand as you've explained it, it really is essentially what's being proposed with a few braces attached to ensure enforcement and the use of revenue stamps to facilitate the administration of the collection of the tax.
5 What I'm not quite clear about is where do the electronic distribution platforms fit in on this model? Are they just another actor that could be - - -

MR STILLING: I don't mind who pays the tax. That's a problem that you have to – sorry to lead the witness here. But seriously, the big problem
10 you have is how effective the ATO proposal is going to be. Well, 25 per cent, is that acceptable really? Secondly, who's going to pay? Well, I don't care who pays, as long as I put a stamp on it. Any one of those people can do it. Obviously the final supplier, the person that's got the money is the person who should put the stamp on because they know the final value of
15 the goods, final before GST I mean. And GST is to be applied on the final price before sale.

MS CILENTO: Sorry, can I just jump in?

20 **MR COPPEL:** Yes, sure.

MS CILENTO: If no one puts a stamp on, it's just returned to sender?

MR STILLING: If nobody wants to put a stamp on.
25

MS CILENTO: If it arrives in Australia and even if it was just confusion, so the vendor thinks the transporter is going to put it on or the EDP thinks the vendor is going to put it on or they all think someone else is going to put it on – I mean, no one – I'd love to – if I'm the vendor I just think my
30 transporter is going to put that on because they're going to have a cost bringing it back.

MR STILLING: The supplier or any one of those people in the chain could put a stamp on it. If there's no stamp on it, it goes – let's deal with a
35 forwarder for the moment. But I might say the post should not be treated any differently really. But let's talk about the forwarders because we know more about them. But the forwarder has to make a choice as to whether a stamp is on there or not. If a stamp is not on there, he has the responsibility to assess the parcel, the tax, and to put a stamp on to recover the tax and to
40 put his own stamp on, if he wishes to do that – and probably wise on his part, but that's his responsibility – to collect that revenue. So that there's none should get through the system – probably watching out - - -

MS CILENTO: But if they don't, presumably it then just would be
45 returned to sender.

MR STILLING: If nobody claims it. This happens right now with unclaimed parcels.

5 **MS CILENTO:** You could ultimately just say, “Melinda, your parcel has arrived. No one put a stamp on it. You paid for that. Too bad. Could you pay again?” See what I’m saying? I go on to Dodgy Brothers, whatever, I buy my pair of shoes. They charge me GST. Then I get a phone call from
10 Customs or whoever saying, “Melinda, your shoes have arrived, but there’s no stamp on it.”

15 **MR STILLING:** But it doesn’t get that far. The forwarder, if he’s doing his job, has decided what the taxes are and he puts a stamp on it. If he doesn’t put stamps on parcels and they go past, well, we’ll look at him under section 33 of the Customs Act.

MR COPPEL: Do you have any idea of what the cost of this model would be in terms of relative to revenue raised?

20 **MR STILLING:** I’m delighted you asked that question. Because the cost isn’t borne by the supplier and it should be borne by the supplier. If it’s \$1000 and there’s a hundred and more dollars fee, that’s a cost to the supplier. It’s part of the transaction of importing goods. Nothing special.

25 **MR COPPEL:** I just want to take exception to that because I mean if you have a model that has sort of these large imposts, that’s something that’s sort of putting a bit of sand in the wheels of trade. It seems like it is quite a heavy model in terms of human interaction in terms of putting stamps on, Customs agent calculating what the relevant stamp value should be. It
30 seems very much like the border model we have for goods for above \$1000.

MR STILLING: Have you ever heard of anybody complaining about putting a postage stamp on?

35 **MS CILENTO:** No, but there is a cost associated involved with the production of the stamps, the process of monitoring where the stamps have been and whether it’s the right stamp, auditing, the six months to develop the education, computer system for people in offshore locations. There are costs associated with those things.

40 **MR STILLING:** Of course there are.

MS CILENTO: I guess what Jonathan is asking is do you have a sense of what those costs might be? Because ultimately part of the assessment of
45 suitability of an option or a model is going to take into account what we

think the cost might be. If we don't get information about what that is, then Tom and his team are going to look at it and maybe do a bit of that as well.

5 **MR STILLING:** I guess there's two questions there. Firstly, you're talking about the cost to overseas suppliers. That's another part – you'd be amazed – and Margaret might like to comment here – the amount of things that overseas suppliers have to do. Now, you might say that they don't want any more to do. But they've got buyer security to worry about. They've got permits for all sort of medical products and so forth. There are lots of things
10 that – this is why we have Customs brokers. That's their world.

MS CILENTO: With all due respect, again, one of the things that we've been asked to take into consideration partly is, is the model suitable or is an alternative suitable? It's what the impact on consumers and businesses,
15 including businesses importing things, would be. Even the impost on an overseas supplier is something that we need to think about, particularly if that supplier then determines that the total impost of importing into Australia is such that it's not worth their while. So they are things that we are taking into consideration.

20 **MR STILLING:** Look, I understand completely what you're saying. But in all fairness all imports have a cost between the goods and getting to the customer. There are a range of costs, a lot of them you never dream about. There are many things that Customs brokers do that you never see. But
25 why is it so different that there's a cost for low value goods of consequence, if that's your question, but high value goods have a cost too. In fact, from a cost point of view, I'm more concerned about the threshold between a thousand and two and a half thousand dollars. I must be honest with you. I was a bit reluctant to raise this with my broker friends because I can see
30 them perhaps losing business. They don't see it that way at all.

The cost of importing a good for \$1001 is probably something like \$200 in import fees. There is a cost of importing. Then the freight. Now, people will say it's additional work to add GST in their pricing and don't have to
35 do that. Well, they have to do it for freight. As I said before, the GST is 10 per cent. That's easy. But the freight is going to vary by country, by weight and perhaps by product.

MS CILENTO: Obviously the issue around low value is just that. You yourself sort of specified the sort of \$200 particularly in a model where there's a Customs broker handling fee of \$20. My understanding of information that we do have around online imports is that the vast bulk of them would actually fall below \$200. So a 10 per cent GST – the
40 administrative cost relative to that 10 per cent I suspect would matter, particularly given the scale of the market in Australia relative to other global
45

marketplaces as to whether you would sit there and think about the value to you of exporting to Australia as distinct from other markets you might focus more attention on.

5 **MR STILLING:** I'm glad you asked that question because it's a pretty important one. Would you like to just give the question to me a little bit more briefly?

10 **MS CILENTO:** No, I was actually just more making the observation that yes, there are already plenty of costs that apply. We see those costs particularly for high value goods. That when you start to getting – my understanding of the bulk of online imported goods is that they do fall below the \$200 mark if you're going by volume. So that if we're now saying to a potential supplier into the Australian market, "Yes, you have to collect the
15 GST. Yes, you now have to adhere to a system that involves this stamp and this process and that process," and there might be a \$20 handling charge applied, depending on – those costs do matter.

20 **MR STILLING:** That's a very important question. I'm glad you asked it. You may find perhaps a little bit of inconsistency in some of the parameters I've used. In fact, some of those were last-minute parameters. The reason for that is we have a little difficulty here. At the end of the day, we can collect all cost, all GST and all Customs. That can be done. Through the ATO model it can be done. The terms of reference don't allow the inclusion
25 of Customs duties. And that's a good question to ask the Government.

But all duties can be collected. If you're going to approve an overseas supplier and you're going to ask him to remit the GST for all his imports, including low value stuff, which he should be doing because that's what
30 he's doing and he can do it – and you could also include the Customs duties as well. But there is a breakeven point where you don't want a dollar package coming through with a \$20 handling fee. That becomes a political decision really as to where – and it's a balanced decision and it might be even taken in two steps, as I suggested with phase 1 and phase 2, where you
35 want to get the normal revenue from the supplier.

If he's audited and is an approved supplier, he will pay the total tax that's involved in all his shipments to Australia, the same as anybody else. He doesn't get any advantage because they're in little packages, in other
40 words. But for those that don't comply you don't want a situation where a dollar packages attracts a handling fee of \$15. That's got to be dealt with. I'd prefer to get away from this threshold. The threshold is a very simplistic way of saying a thousand dollars. Everybody knows what that means.

45 But really it's the minimum collection that we're concerned about.

- What is cost-effective to collect and what's fair to a consumer who doesn't want to pay a \$15 handling fee for a dollar mug. You've got to be careful how you approach this when you're transiting from single transaction system to a supplier system. I think I prefer to leave that to a later stage of the game where politicians will probably have to make that final decision on what – although the controller-general has the authority to determine the minimum collection amount, I would prefer that authority to be used and move away from this \$1000 model.
- 5
- 10 **MR COPPEL:** In your remarks you mention that this model has been adopted in other jurisdictions, if I understood correctly, or some variation of it, the use of revenue stamps.
- MR STILLING:** Not like this. Revenue stamps have been used traditionally for a long time. I'm not even sure – I've no knowledge of any Customs organisation around the world using them right now for this purpose. You might think it's a bit old-fashioned to use a revenue stamp.
- 15
- 20 **MR COPPEL:** They use them in France for parking tickets. But I think it's gone online now. Can I ask a question about sort of the trusted supplier that you referred to, once they've established some sort of reputation?
- MR STILLING:** Yes.
- 25 **MR COPPEL:** What sort of criteria would you, from a Customs person, see as appropriate criteria to get that certification, if you like, as a trusted supplier or as a trusted agent?
- MR STILLING:** I'm not an auditor, I don't want to divulge any knowledge that I do have. It's not a random audit. It's a targeted audit.
- 30
- MR COPPEL:** I'm not talking about audit. I'm talking about that - - -
- MR STILLING:** But you're auditing a company before you approve them to be a trusted supplier.
- 35
- MR COPPEL:** You have no idea what sort of thing that would characterise a trusted supplier? What characteristics or what sort of benchmarks would be used?
- 40
- MR STILLING:** No, I think I'd leave that to the Taxation Office.
- MS CILENTO:** I don't have any other questions. Did you want a moment to just reflect on your notes, whether there was something that you'd missed?
- 45

MR STILLING: Everybody is terribly thirsty. I haven't been able to find it. It's upside down. No, that's not the bit of paper. No. Thank you.

5 **MS CILENTO:** Of course, if there's anything else that you'd like to add you can stay for the duration of today and come back up or anything further in written submission would be most welcome.

10 **MR STILLING:** Thank you, Commissioner, you've been so kind.

MS CILENTO: Thank you so much. Thank you, gentlemen. I might ask you to introduce yourselves, if you wouldn't mind, and then opening remarks, please.

15 **MR ROACH:** Thank you. First of all, I'm Perry Roach, CEO of Netsweeper, one of the founders.

MR KNEVETT: I'm Brent Knevet, I'm a consultant with Netsweeper here in Australia.

20 **MR ROACH:** First of all, I hope you've received our submission.

MS CILENTO: Yes, we have.

25 **MR ROACH:** We sent three documents for submission and look forward to the opportunity to expand on that. Again, if you need any more information, we'd love to share our best practices in what we do. But my background is in the software business for over 18 years when we started Netsweeper. Prior to that, I was in the logistics business working for a large
30 American company. I'm located out of Canada and I have a background in economics, so this is of great interest to me and what drives the economy and so on of a country.

Netsweeper is Canadian-originated technology and we have customers
35 in over 50 countries. If I met you on an elevator I would tell you that we enforce the law on the internet. Basically, what does that mean? Countries hire us to build tools and they decide what their rules and laws are. We've been doing this for over 17 years. I would like you to perceive us as a toolmaker. We don't decide what Government of Australia wants to do.
40 We simply listen and provide solutions.

A software company is only as good as the problem that it solves. It's also a capture from Steve Jobs. But Netsweeper truly believes that we can augment and assist and offer our tools to address the current and future
45 challenges that you're discussing over the last year since 2012. We're not

saying that we can come and change the world. We think we can give you a result that would really improve and augment what you're already trying to do. We think there's a lot of things missing that I'd like to share; and they're included in my submission.

5

There's a lot of stakeholders and challenges and issues that I feel aren't being addressed. I want to bring the scope of the worldwide web into this process in this discussion. I'll try to understand that not everybody is as technical as some of the team members that I have in Netsweeper. My ask, at the end, is to ask the government and the committee to have a further deep dive into Netsweeper's tools that we put in the hands of the Australian Government and review what we could do.

15 The premise is with the Netsweeper tool you don't have to push the burden back to the merchants and the retailers and the delivery and so on. The tool will empower the country to decide on what to do. If they don't understand everything they need to do, Netsweeper would support and augment what they need to do. We have a two-point approach: collection, which is being discussed in extremely large amounts all over with lots of points of views. But I think another big part of the issue that you're discussing is enforcement, which Netsweeper is doing enforcement for 17 years.

25 One of the other challenges and observations that I have is the definition of "ecommerce". Download services, digital media, transport like Uber, Netflix, eBay. We've been speaking of 24 countries around the world with the exact same discussion. We're into like fourth and fifth in-service meetings with the collection office and the tax office - - -

30 **MS CILENTO:** Can I help you in the context of this inquiry?

MR ROACH: Yes.

35 **MS CILENTO:** We are only focused on goods, tangible imported goods.

MR ROACH: Got it. That makes sense. Everything that I talk about applies to tangible goods. Moving on. Deciding what is and what's not the rules or policies is an important issue. One of the approaches that Netsweeper takes is Customs. Respectfully to the previous presenter, this is a Customs issue. I believe that Customs needs tools to better what we call in the software business API. What that means is interfaces connect with other interfaces to give data to make decisions.

45 In my world, the idea of stamps, we could put what we all a digital stamp and automate it. So as much of a great idea it is, we could automate

that and take that gentleman's services and automate it and integrate it or API into the solution. So any ideas, solutions that the Government of Australia decides, we would automate this and get a worldwide reach and landscape. Why Netsweeper? If we talk about goods, if that's what you'd like to just focus on, we have over 10 million merchants in our database right now around the world.

There are the big six; the Amazons, the Ali Babas and so on and so on. However, as what payment systems, they become more and more prevalent and in the fintech world – financial technology world – there's so many new ways to make a payment and there's so much battling going on right now between the banks and the credit cards as well as chip technology that it's inevitable that there'll be thousands of new ways to make payments in the next three to five years.

The landscape of merchants, marketplaces, payment systems, we're finding 50,000 new online sales sites a day. Go to Netsweeper.com Live Stats it will give you that statistic and it'll update it every hour. This is our business, this is what we do. So it's our job to understand the merchants. It's our job to understand the new merchants. Basically, we can offer a direct effect on local retailers levelling the playing field with tax.

Customs tax officers are battling this 2017 internet technology with limited tools and outdated tools. I agree with the statement about this level of \$1000 was really put in place just because of the sheer volumes that the Customs have had to deal with over the past. With automation that would change things. What I'd like to do is move over just to some of the subsections of my submission. I'm just going to switch documents here.

Just to stimulate conversation ideas and any questions, I'd like to talk about what I call the challenges that we presented in our submission. There's a lot of them. I don't want to restate all the problems that everybody's outlined in brief. What I'd like to do is talk about some best practices, what we're seeing other countries do, some issues on where the whole world is going.

MS CILENTO: Can I ask a dummy's question first?

MR ROACH: Anything, yes.

MS CILENTO: I understand you've got a database of merchants. I'm interested in how the technology allows the ATO or Customs or whoever in Australia to identify individual transactions into Australia including the product and is GST applicable yes or no and then determines the rate, et cetera. I'm actually quite interested in trying to understand how the system

gives an Australian government that information. Then I'm actually quite interested in, if you have that information, what the technology brings that allows an Australian government to enforce the collection of that taxation overseas.

5

MR ROACH: Great. Right to the point, I love it. We have a system. We have the enforcement and the collection system. The enforcement is around 17 years, the collection is a new system it's initially been launched. What it does it – as I used the API – I just want to make sure you understand. If you look that up, application which accesses the features of a data. In other words, the interface into another interface.

The payment systems, not just the ones you know of today, but the new ones, will by law have to interface into the Australian solution, the Netsweeper solution. They would ping or, for lack of a word, hit the transaction on what to charge. Netsweeper as a tool would have all the parameters that you want to charge today and any changes you want to make to Customs tomorrow. So if it's just about the tax, they would understand they have to charge 10 per cent. The HM codes would all be in the dataset. We're up to about 30 different datasets now where it's the vendor code, the HR code, the amount of the transaction, the amount of the tax and so on.

We would then have the payment stack – the reason I don't use "payment systems" is there's about four different stacks that are touched through this whole process that would API and grab that amount of tax that you're supposed to before any Custom agent, any transporter, anybody gets this, all electronically. That would then go to a clearing house. I put a flow document in my submission. So it would come from the payment stack to a clearing house and then distributed back to the Australian Government, all under the management of the Australian Government. This would not be managed by a transporter. This would not be managed by the merchant.

This is these stakeholders, processors following the Australian law. Then it would be transmitted over. It's an augmentation of what you're trying to do now, only - - -

MS CILENTO: Who pays the GST?

MR ROACH: There would be the end-user of the purchase, the purchaser of the product pays the payment system, like they do today.

MS CILENTO: Who remits it to the Australian Tax Office?

MR ROACH: Netsweeper clearing house.

45

MS CILENTO: How do you - - -

MR ROACH: We get it from the stack, the payment stack, which would compromise of a thousand different payments.

5

MS CILENTO: You get the data from the payment stack.

MR ROACH: And we get the transaction. Remember a payment stack is their job is to process transactions. Let's go through this one by one. You fill in a hundred dollar purchase. There's a 10 per cent tax on top.

10

MS CILENTO: Let's do this. I'm sitting at my computer. Nice pair of shoes. Ping. Charge my credit card. It goes flying off. What happens next?

15

MR ROACH: Well, if it's charged your credit card we've already got the tax. Would you like me to go before that?

MS CILENTO: Sure.

20

MR ROACH: That's maybe the challenge. The way it works today is the merchant, the guy – Perry's Neckties, you're buying a necktie from Perry. I registered my domain in Panama. My server is in Palo Alto. The pick and pack is in Vietnam and the customer is in Australia. Basically, that's the way the world works today, isn't it? What happens is my payment system, which could be anything from PayPal to the other 500 payment stack operators, would basically process your credit card through a series of processors. We would legislate that process, that payment system, to do one more transaction. Because remember they're transacting the payment system, the bank, the credit card company, maybe an agent in between that. Back down to the agent, back down to the bank, back down to the payment processing. Then that gets returned to the merchant.

25

30

So the merchant might have a \$110 purchase with the tax being 10, the purchase being a hundred. But they may get back \$94 because with our system the tax would be dispersed to the Netsweeper clearing house, which would immediately go to the Government, the fees to the bank, to the processing - - -

35

MS CILENTO: Does the tax show up on your – if I'm buying my tie, it adds that then or it gets added in the transaction process after that?

40

MR ROACH: Before. The way it is right now, when you buy that tie, when you put in your information, it actually shows you the amount because you're not going to buy it until you know the final amount, usually. So it

45

would be in there. Look at this as a service provided to the merchant. One of the challenges of this whole discussion is that all the stakeholders, the Customs people, the merchants, the payment stack, the Government, they want this as a service. The statements are in writing. They don't want to do any of this. Nobody wants the burden of this.

So we need a process and a tool that takes the burden off all the stakeholders, understands the data. That's the interesting part.

MS CILENTO: How does your website know what GST to add? Presumably, you sell all over the world. So how does it know – so it goes, “Fine, I’m shipping to Australia.”

MR ROACH: Our proposal is to have 198 separate systems because of all the laws and information and everything. They would all be held in Australia. The Australian Government would put the inputs. Then what we would do is we would communicate those inputs to all 5000 payment stack operators and they would ping your system and they'd say, “I now know what that HR code is,” or what's going on and what to charge accurately, 710, whatever the number is. That goes on your invoice, goes through the payment process and it's picked out.

That pick-out, I call it, it's just a simple transaction they are paid for. They get a small fee. They want to do this as a service. So my comment is how much – whatever is charged through whatever system you use – this gentlemen is right, it's all going to be passed back to the consumer. The consumer is going to ultimately pay the fees; let's face it. When they say tax included or whatever, that all just comes back somehow to the consumer.

MS CILENTO: I got a little holiday on my audiobooks, I have to say, but never mind.

MR ROACH: Back to that, I'm here to answer any and all questions. I hope I'm clear. We would offer a two-prong service, three if you include enforcement. Tell the merchant how much tax it charges based on your parameters per country. The second service would be pick off that tax and clear it for you immediately.

MS CILENTO: So that gets remitted immediately back to the ATO.

MR ROACH: Within 24 hours at the end of each day, technically.

MS CILENTO: What happens if someone returns that good?

5 **MR ROACH:** That is an excellent question. I propose that the Australian Government will have to have a team of analysts. We'll give them data and a process would have to be put together with the right data on how you handle it. If you read the fine print on Amazon – I've said that on the record. You can Google this – they do not give back the tax on a return. It's all part of what I call a document flow cover your butt. Basically, what happens is they consider that as a fee of handling, if you read the document flow. They're brilliant. I would propose that each government takes on the same practices of what the ecommerce has taken on.

10 Now, the other thing I propose to you if you feel that the politicians or the government needs to return that for moral reasons, we would have all the data to do that; that's number 1. And I would rather be in a position to have the money in your hands than try to collect it. That's really the ultimate, isn't it? Have the money that you can give back rather than trying to grab the money. The other thing I propose is a lot of governments we speak to they love this. They say stop trying to catch the wider net of taxes and stop the leakage.

20 One of the things we talk about is the cost of acquisition. I would challenge the committee on what is the cost of acquisition in the Australian Government today for collecting taxes? There's income tax, all different types of – it's usually around 2 to 3 per cent. We're proposing that this will cost about 5 per cent. We think we can get a hundred per cent of the tax collected with a 5 per cent cost.

MR COPPEL: This is a proprietary system?

30 **MR ROACH:** Yes.

MR COPPEL: For that system then to set in the stack you need legislation?

35 **MR ROACH:** Yes.

MR COPPEL: To ensure that the various merchants or the various players abide by that.

40 **MR ROACH:** Yes.

MR COPPEL: Is it interoperable with others?

45 **MR ROACH:** Hundred per cent interoperable. It really, for lack of a better term, is a big data project. If we have 10 million merchants and 5000 payment systems today and five years from now we have 30 million

merchants and 10,000 payment systems tomorrow, they will all be interoperable because of the centralisation and the central management of the databases. These are a million dollar Oracle databases that collect per country, because we have to follow the rules of finance and laws. You hold
5 all the databases. This is your information.

What I can't fathom, with all due respect to everybody, is getting this citizen's money and put that in the control of the merchants. I just don't get that. Why would you ever let the future of our commerce of countries is
10 ecommerce. I spoke to the gentleman of the retail association. It will go to ecommerce. I put in one of my observations there's a company called All Those Shoes. So All Those Shoes has a shoe company in every part of the world. I travel the world four and a half times a year. Everywhere I go there's an All Those Shoes. You go in and you walk in and you can try any
15 kind of pair shoes on. What happens is you say, "Okay, I want this," and either that afternoon or the next day it's delivered to you. It's a hybrid.

This gentleman told me that's the future of their life. So it will be an ecommerce transaction or not. But at the end of the day, don't put the
20 money, the future or the root of your existence, of your economy, in unknown, un-auditable merchants' hands.

MS CILENTO: I've got two more questions and then you get to tell me about your challenges. Enforcement and who else is using Netsweeper for
25 GST or VAT on goods?

MR ROACH: The second one is easy. We enforce a lot of items on the internet, but I have a projected of five countries that will procure us over the next six to 12 months. We don't have anybody because it's a new
30 product offering. It's one of these Steve Jobs things. How do you know you want it if it hasn't been invented yet? But I felt that Netsweeper is in a very good position because we're already enforcing other laws and we know every merchant.

MS CILENTO: This is countries looking to use your technology for the importation of goods.

MR ROACH: For the collection and enforcement of VAT remittance.

MS CILENTO: In respect of goods.

MR ROACH: Excuse me, when I say VAT I also mean – I use it interoperably.

MS CILENTO: Yes, that's fine. Legislation has dealt with the digital side

of this. So I'm just trying to be really specific that this is in respect of tangible importation of goods.

5 **MR ROACH:** Right. It is what you want it to be, and I heard you loud and clear. We'll talk about the focus - - -

MS CILENTO: We've got really narrow tram tracks for this one. Enforcement?

10 **MR ROACH:** This is what we've been doing for 17 years. Fortunately/unfortunately, Netsweeper sits in a very interesting position. We sit in the gateways of the internet. Basically countries will put our servers in the gateways. Where is a gateway? A gateway could be on the edge, which could be a national network, or it could be in the ISP, the
15 internet service provider, and they host our servers. What they ask us to do is find needles in haystacks. The first number 1 thing we do in the world is child exploitation and human trafficking.

We have to look at every single request to find what they deem to be
20 illegal per country. Each one has a definition. So we will take that site and we will disallow that. What I'm proposing is if it's the law, then you should hire somebody like us that would enforce that law. We would propose a very ISP-friendly – we have over 50 countries, 350 customers' ISPs that have our stuff in their networks already. So it's not new. We'd never take
25 the network down. We'd never degenerate the network.

What happens is, because we're allowed to be in there, they simply tell the telcos, "If you don't follow this law, we won't issue you your licence." So it becomes a telecommunications proposition. What we would do,
30 pending analysts and the tax department, you would then instruct us to either signal or warn or stop that website from appearing in the country of Australia. Basically, it's as simple as that. It's a zero tolerance approach.

When we go to the payment systems they say, "We don't need to put
35 you in until the government tells us we have to." What they're also interested in are the fees they may get paid as well. The fees are going to be a lot less than you guys pointed out on your last – about how many \$20 fees. I mean, the UK has a 10 pound postage fee just across the board. This would reduce – as an economist, would reduce the amount of fees to the
40 consumer and put more money back into the economy.

The enforcement side, if I could just add a couple of other things. In the logistics business this gentleman is right, that what we're seeing is a package goods of maybe \$500 to \$1000, even if it's above or below your
45 minimum – let's assume the minimums went away and there's an

5 automated system that helps the Customs stakeholders manage what they need to manage. They'll open up a box at Customs and it might be like goods and services worth \$1000 but it was only registered as \$50. It's rampant. That's money that's doing three things. First of all, it's cheating the system. Second of all, it's hurting the retailers association because they're getting around the laws and they're not paying the right amount of money for duties, taxes.

10 The last thing I'd like to talk about is there's an estimated \$4 trillion of ecommerce in the world and counterfeit represents 1.7 trillion of this. The challenge is all over the map with counterfeit. Like how do you stop that? There's laws – a lot of the big 6 ecommerce people say they're following the counterfeit laws but it's kind of like they're public companies and if they shut down their counterfeit laws they essentially lose 35, 40 per cent of their business, wouldn't they?

20 Enforcement of that also correlates, which has an extremely direct effect on your retailers association. Bringing counterfeit goods into Australia – if you can buy a \$50 pair of binoculars that's counterfeit versus a 300 pair at the retail store or from an online retailer in Australia or somewhere else, it's a huge effect on the economy. I noticed that the assessment was really all about what are we going to do for these retailers? What are we going to do for the good of Australia? What are we going to do to follow the laws and the solution? I think enforcement is a big missing part.

MS CILENTO: That's broader. You probably need to speak with our colleagues at the black economy taskforce on that.

30 **MR ROACH:** Sure.

MS CILENTO: I'm sorry, I keep asking more questions.

35 **MR ROACH:** I love it.

MS CILENTO: I promise I will give you a chance to tell me about your challenges.

40 **MR ROACH:** I'm here till Friday if you want to keep talking.

MS CILENTO: Private company.

MR ROACH: We are a private company.

45 **MS CILENTO:** Does that cause angst for any of your other government

clients?

5 **MR ROACH:** None. What we've done is taken a two-part approach to overcome any angst, as you call them. Canada put in this incredibly opportunity just after the war where they will bond and guarantee our services. It's called CCC.CA. What they will do is they will project manage, ensure that we say what we do and do what we say and guarantee that it then can be a government-to-government opportunity. This is (indistinct) Canada and solve problems around the world. That's the first
10 thing.

15 The second proposal that we propose is very common today. I'm not just saying this. It's called a PPP, a public private partnership. What I propose to do is premised on this: there's nobody that should be doing this task but the government. I propose to licence everything; our patents, our technology, everything, to the government of Australia and form a PPP. We would own a small share of that PPP. You would own the major share, control of everything. We become your IT supporters and you now have no issues with who you're dealing with. You own the product, you own
20 and run it and make all decisions and we are your IT support.

25 In order to get around this challenge I think you're getting to, or maybe not covered, we can have a government-to-government deal and we can propose that this is going to be a hundred per cent in control of the Australian Government and, frankly, the other 198 countries. It's the same proposal that everybody – because if you put anybody – you put the future of Australians' tax collection in a million merchants or 10 million merchants or payment systems that don't even exist today and all the other variables, I think it's a mistake because you're not going to get interoperable
30 data and you're going to lose control and there's no audit because of the www encryption that exists. Did I answer those questions?

35 **MS CILENTO:** Yes. I was just cheating and having a quick look on your website to see what your company structure was. Have you spoken to anyone, you know, black economy or anyone else at treasury?

MR ROACH: We spoke to the Tax Office.

40 **MR KNEVETT:** Just the people managing this project.

45 **MR ROACH:** That does introduce another issue with goods. I hope this never happens, but unfortunately, in our word in a democratic society something bad has to happen before everybody wakes up. Like Theresa May just announced that they're going to take all measures to shut the internet or manage the internet because of their issues. When that was all

happening I was in Singapore watching the Australian Parliament and your Attorney-General said you're going to do whatever it takes to manage these issues on the internet, whatever it takes; that was his words.

5 But basically, when it comes right down to it, it has to be the law and you have to be the decision-makers. We're just the toolmakers for what you decide to enforce. That's really the approach we take. We don't judge. We just make tools for what you want to manage. I was going somewhere else, but I forgot what I was going to say.

10

MS CILENTO: That's all right.

MR COPPEL: Can I come back to a point you make in your submission. It relates to the payment system. You say there are many issues with the
15 current system, especially the conflict with credit cards and the banks. Could you explain what you mean there and how it bears on the model we're proposing?

MR ROACH: This is a fascinating issue right now. What happened is
20 about a year ago – first of all, the banking and credit card are in an extreme behind-the-scenes disarray. This new chip technology is owned by MasterCard and they're charging huge fees and the banks will do anything they can to get back these fee structures. So there are huge fights. They're also very concerned about all the issues that are going with fintech and the
25 fact that their systems are still 1950s. If you look at the way things transact over the day at 12 o'clock midnight there's this big clearing transaction all centralised with 90 different bumps.

Today I have a friend who owns a fintech company. You can mint
30 money over here, transmit it with military encryption and unmint it over here. So they are really worried about the effects of what's going on with the new payment systems and how they're going to lose all their fees. They're fighting each other about this cost that the credit card companies, to answer your question, are charging the banks. The banks are eating these
35 costs and eating into their margins. This is all just something to be aware of in the sidelines.

The moral of the story is that what we see today in payment systems
40 will affect the future of our economy. Why do I mean that? I think Amazon is going to continue to grow and be an amazing company. But as we get more and more comfortable with buying direct, not with Amazon, and the payment systems are more easy and their apps and these type of things, Amazon has moved away from a direct pick and pack to a marketplace for that reason and many others and they're a great company and I don't mean
45 anything other than that. Amazon will continue to grow but 7 billion people

in the world will buy direct.

5 I bought a pair of sandals at the beginning of our summer in Canada
and I bought directly from the shoe manufacturer but I shopped on Amazon
as well. I was comfortable dealing directly with the shoe manufacturer. I
think this is a practice and a result of what's happening in the whole
ecommerce goods services. The payment systems and the comfort of these
new payment systems are going to happen will change the way we buy. I
think that with our stack approach, as I call it, we're futureproofing the
10 decision of a government and keeping the management in the hands of the
– the money in the hands of government, with all due respect, rather than
giving it to the big 6 merchants or the other multimillions of merchants that
may or may not remit it. Even if they are registered, even if they do have a
group certificate, there's no way to audit them.

15 With our system we audit it right at point of purchase. We know the
data right at the point of purchase. Would you like me to go to the
challenges?

20 **MS CILENTO:** Please.

MR ROACH: Forgive me for repetitiveness. I'll try to skip them. The
root of ecommerce is self-assessment, pretty obvious; right. So even if your
merchant registration works, that doesn't mean that if they collect \$100,000
25 of tax for Australia they're not going to say, "Should we buy a new car or
should we give it back to them?" There is no enforcement that I can see,
unless I'm missing something, in the current proposed systems. You can't
have a speeding law without somebody stopping you for speeding. You're
still going to speed.

30 As I mentioned, ecommerce is virtual. So it's borderless. And thank
goodness it's encrypted. They have our credit card information. They have
all our information. In fact, it may sound crazy, but I met this gentleman
named Tim Berners-Lee. If you Google him he's the founder of the www.
35 This guy wrote all the html code. He was at a lake house party I was at two
weeks ago. Basically, his real concern is the information that we just simply
give out to the internet. We just give it out freely and especially young
people.

40 One of the reasons I think Netsweepers that we got into this business
and started our patents and processes towards years ago is because we know
every online website in the world. That's our job is to categorise every
website in the world into 72 categories. Continuing on. Governments want
to have the merchants remit their VAT. However, they won't comply, in
45 my opinion, without an enforcement. So I'd be interested to understand

how that was thought.

5 The other thing that I find when I talk to countries is who pays and what
do they pay? That was discussed a little bit with this gentleman. To us, it
doesn't matter. You tell us what the decision is today and we'll put that in
the parameters. If you change something tomorrow, baby clothes are
exempt tomorrow, this product, that can be changed. Nobody is deciding
on this. I'll tell you how we thought about this. I'm not sure if it's the same
in Australia. Have you heard of fuel user tax? It's kind of the same thing.
10 If you drive from one state down to the other state on one tank of fuel you
have to manage each one of those states in who gets that tax. It's the same
thing on the internet. You're trying to decide who gets the use of the tax.
If you book a holiday in Los Angeles to go to Australia, are we making sure
that use of that holiday is getting given back to the – now, I know you didn't
15 want to focus on that.

MS CILENTO: I've seen this example on your website.

20 **MR ROACH:** This is something that we can help in the future. If you
decide that the use is the use in Australia, we will ensure the parameters and
the datasets and the clearing houses get the tax to the right use. It's my
humble belief that you've underestimated it. With the people we've spoken
about in Canberra they say, "You know, Perry, this is a 3 to 4 hundred
million dollar opportunity," and I go, "You're trying to tell me that it's only
25 a 3 or 4 billion when everything I read is 30 billion," but I realise we're
focusing on goods.

I guess the moral of that story is this is the taxpayers' money. We don't
want to leave anything on the table. That's my view. Customs, we meet
30 with a lot of Customs. I don't think you should eliminate – in fact, I think
you should have a Customs person at that table for every other inquiry
going; that's my recommendation. They are the ones that know what's
going on right at the root of all the challenges. We were in the Netherlands
and their concern is we used to process container loads of running shoes.
35 Now we get one pair of running shoes at a time times 20,000 a day. It's
ridiculous. Who's giving them the tools? My dad said to do the right job
you've got to have the right tools.

40 Please connect with the Counterfeit Association of America. They're
fascinating. They have amazing stats. I put some references on our
submission. They really have a good insight. Where I was going before
that I recollect it was 22 years ago or whatever, there was an issue with lead
in kids' toys. If that were to happen with our dataset we could identify
immediately the vendor code, who shipped it, who bought it. If you guys
45 wanted to stop the death of this product, if the Government is strong enough

to do it, we could block that website that's selling those goods until they clean their act up. We could block the payment system that sold those if they weren't going to comply.

5 It's just unfortunate in my business that bad things have to happen before they decide to take action. With our system you would have full capability, not mine, to stop that outbreak of challenges, what they call the FDA in America. If you wanted – what I'm finding as an observation – and I know we didn't want to focus on this, but most people are concerned about
10 Uber. I think they bill out of Ireland and Netflix bills out of somewhere else in the world. All these issues with where the goods and services are actually coming from. We take away all those challenges and get them right before it.

15 Now, just to be clear when I talk about Customs and other systems, if you were to buy another system from this gentleman and others, we would simply take this tool and interact with their interface and interact with other interfaces. The Customs would have a dashboard that would be meant for them only and they'd be able to get that amount of good service and has the
20 tax been paid. My understanding in the Customs business is they will not release goods until they know this is paid.

 You talk a lot about efficiency in your request. You talk about a lot of costs. I think we drive efficiencies. We drive cost down with an automated
25 interoperable system that's built just for the Australian Government's use to their parameters. Now, remember the other 198 countries will have the same chance to build it to their interoperable capabilities. But it would all be cleared centrally and managed for a tax purpose.

30 **MS CILENTO:** Can I ask another question?

MR ROACH: Yes, that was the last thing on my challenge list.

MS CILENTO: How long does it take to build this system?

35 **MR ROACH:** The system is built. We could meet your July 2018 requirements. I see this as anything you deploy, whether it's your current proposed system, a new proposed system, will have, from being Canada, a hockey stick approach. If you are willing to do zero tolerance in the law,
40 our indications are, talking to merchants and to payment systems, is if it's part of the law, then we have to do it. We would connect with all the fintech companies and make sure they have this thing what they call their road map so that they have to have this integration of interfaces to the Australian tool. Just so you know, it'd be the same interface as everybody else in the world
45 so you wouldn't have to build 196 of them.

When they launch this new fintech solution it would immediately interoperable into the Australian's tool. You would at least have the comfort that the tax is collected. Somebody mentioned about you can get into duties and levies and other opportunities. We could that but we're focusing on what you want to focus on.

MS CILENTO: Great.

MR COPPEL: Another point you make in your submission relates to compliance rates. You make the point that it depends on what you're trying to measure. It could be anywhere from 10 to 50 per cent.

MR ROACH: With your current system that you're proposing, not with ours.

MR COPPEL: But you also mentioned rates from around the world. So I don't know if you have any information on that which I didn't see in the submission that you'd be able to sort of point us to.

MR ROACH: I did try. What happened was KPMG – one of the gentlemen from Amazon, I guess, works with them. When we did our initial analysis and we were in Canberra in front of them the press or the articles misrepresented KPMG's findings, from what I understand, to the tune of I don't know and I won't comment. That's up to you guys to find out what they did and didn't do. There's absolutely no way to predict the current proposed solution in my opinion. I really believe that the big 6, with all due respect, will comply up to the point where it effects their stock price. I believe the route will be the counterfeit.

If you look right off the website 60 per cent of the counterfeit challenges are managed by eBay. What are we trying to do? Collect tax on counterfeit goods or are you trying to protect the retail association? You're trying to continue to ship counterfeit goods? And we're not talking about Gucci purses here. This stems into batteries that are counterfeited and issues of safety that are counterfeited and so on.

I would say that 30 to 50 per cent is what the public seems to be saying that your current proposal will work. If you understand the flow and the legality through a document flow, this becomes the service to the merchant and a service to the payment system. It reduces to the cost to the merchant. They don't have to have two people on staff to remit to 196 countries their tax, because it's not just about Australia for the merchant. The payment systems will get a small transaction fee, which that's what they're in business for. With all due respect, they're in to make fees on transactions.

Most of the payment systems are owned by the merchants.

5 You know what else, the fintech guys, you know who the number 1 investor in the fintech companies are? Visa and MasterCard, because they're worried that they're going to get replaced. So it's interesting what's happening today.

10 **MR COPPEL:** With your system, you've been around for 17 years, but you mentioned the compliance system is relatively new.

MR ROACH: Yes, it is new.

MR COPPEL: Is it being used currently?

15 **MR ROACH:** It's being proposed, it's not being used. It's in beta version. That's a scary word in the software business, but it's not to us. It's release 1 we call it. We have patents in place. There are seven patents in the enforcement side and two in the collection side, which is what we've been preparing for a couple of years. I don't know if I answered your question.

20 **MS CILENTO:** I think you said earlier it was sort of five countries that are looking at investing in you.

25 **MR ROACH:** I've been to 24 administrative, finance and tax collections and we've got five that are targeted hopefully in the next six months to move forward with something. They're going from anywhere from a proof of concept to however fast they want to go. Again, it's a real definition from Australia. A lot of people are not looking at just the goods. they're looking at all ecommerce transactions.

30 **MS CILENTO:** Legislation has applied already to the digital – we call it the Netflix tax. It's already in place from 1 July this year. Hence, the specification of goods only.

35 **MR ROACH:** With all due respect, we could apply the tool to whatever legislation you already have. I know that's not part of this discussion, however, it's important to understand it's a platform that can be expanded.

40 **MS CILENTO:** Of the five potentially in the next six months, without giving away names, would they be considered peers of ours?

MR ROACH: Most of them are with the OCD, yes. I think that's where you may be going. There's like 12 named ones in the OCD.

45 **MS CILENTO:** It's always useful.

5 **MR ROACH:** Absolutely. I commend you guys for being first out and leading on this; it's great. Somebody's got to make the move. And that's one of my asks. Zero tolerance, somebody make the move. It's one of the interesting things that I find around the world is they don't know who would own this. You've already said well, that's going to be like this part of the country and that's going to be this part of it. So it's a real interesting common problem for many different departments.

10 **MS CILENTO:** Did you have any other questions?

15 **MR COPPEL:** Just asking whether this system can then be used to get an idea of the scale of ecommerce, the average value or the top 5 vendors account for X per cent of the market. Is that information you can extract from that that would be contextually useful for us, particularly in the Australian context?

20 **MR ROACH:** It'll give everything. Maybe I didn't clearly explain, so I'm glad you asked this. The answer is yes, it will. We call each one of those questions a dataset. Because we're getting all the ecommerce transactions, we'll get a dataset on the vendor; so they get a vendor code. Now, remember this will be trillions of transactions. So it'll be a big data project. That's why you need these massive databases. The vendor, the amount of money that they spent, the amount of tax we collected, the code it was coded, the product, Customs requirements, which are about seven datasets, source, destination, time, date, these type of things. It just goes on and on and we can add datasets.

30 That's the way this whole thing is formulated, because you really wanted to know the nuts and bolts. When you have data and datasets like that you can extract reports on each one. We can do it just for Australia, but then we'll also have the ability for the OCD or somebody that wants it, certainly with your permission, following all the financial rules and privacy and all the encryption and dataset. We could have all that data as well. We would bring legitimacy to ecommerce, in our opinion. It's a big data project, as I mentioned.

40 We would be able to actually give you a view of what's really going on the way you want to see it. We would have a nice template for you – and this is how we're going to start. But our goal would be to talk to Customs, talk to the other stakeholders in your government, certainly talk to anybody else that wants to see – because when we look at a problem we look at all the stakeholders because you're never going to keep everybody happy. We do think that this is the silver bullet. We think that it has to be a centralised system with interoperability for everything.

That's what the premise of your question is. If you're missing – if KPMG is right or wrong with 30 or 50 per cent, you're missing 70 to 50 per cent of all the data, so you really don't know what's going on. The data you're missing is probably the illegal stuff and the non-compliant stuff, and how much is that and what is that causing to the retailers and so on and so on. Once you get everything that comes through on an e-transaction, you can decide what to do with that.

You may have the goals and say, "Okay, Mr Digital Department, we have this goal that doesn't apply to us because we didn't ask them to do this, but they have it. Would you like to see it and make a move on that maybe?" I don't know. But that's the type of data we think we can give to you. The problem with the merchants – and God bless their hearts for trying to help you guys with all this – they're going to incur huge costs. They're not going to be incented to solve your other problems. They're going to solve their problems of collecting this GST and that's it.

What about all the other challenges that we mentioned? Are you going to push that to them and then, all of a sudden, you've got the banks and the merchants trying to make all these tools for your guys and data collections when their job is to deliver the goods and not do that. I just think it's a mistake to put the control in their hands, but the future of what your challenges will be. One thing about the internet is it changes. It's a cat and mouse game every month, every year.

We think that with a tool that can deal with today and the futureproof of tomorrow, including Customs and the other interfaces and the APIs that you would interact with their interfaces. If you went out and bought a new Customs tool, we would interface with that. We would make sure that before they bought it, that it would interface. Are you going to get the data you want? Is it going to help you? I understand they're going to a hundred per cent scanning. That's the goal of every country where the US has got there.

What is that going to mean and what sort of data are you going to generate from that? Will it be interoperable? It's certainly not going to be interoperable with 10 million merchants because you're going to have Perry's Neckties in the basement and you're going to have major corporations are going to say, "No way, we're not doing that for 196 countries."

MS CILENTO: Perry, who else is offering solutions in this space? If you're going to put in a government tender, who else would you expect to put a tender in?

5 **MR ROACH:** That's a good question. We haven't come across anything other than Amazon. Amazon has deep down in their website a service like that they claim that they charge 2 and a half per cent. I'll reserve my comments on that. I think Amazon is a great company and they can probably do a good job with their data. But that doesn't help the Australian Government and the rest of the world and everybody else. I don't see anybody yet. I don't know – well, I know for sure there's nobody in the enforcement side that does what we do.

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15 With all due respect, it's not just that. It's the three Cs that we're working with. We've got other projects with the Australian Government that uses the same platform that could be interoperable. The latest craze is counterterrorism. We're working in the CTIU, which is the UK Government, and cyber intelligence which is intelligence of interest. We don't even know what they're using our tool with; we just know that they use it. Then cyber security. One of the biggest challenges is when a virus breaks out, because we're in all the telcos, we can actually block that link that had the virus.

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25 These are the things we do for governments. That's the reason why I think Netsweeper is well-situated to do this and why I don't think a lot of other companies have been in a position to offer this. It's because we've been doing this sort of thing for 17 years and this is just another solution that I think a software company like Netsweeper is well-positioned to offer tools to help you manage this. Thanks.

MS CILENTO: Thanks for that and thanks for getting on a plane.

30 **MR ROACH:** My pleasure. I love Australia. They say we're the closest cultured countries in the world; Australia and Canada.

35 **MS CILENTO:** Thank you again for your time. I'm not sure – I think we covered quite a bit, so I was going to say I'm not sure we need anything specific in an additional submission or anything.

40 **MR COPPEL:** I don't think so, unless there's further information that have prompted you, given the discussion this morning, that you think might be relevant to us.

45 **MR KNEVETT:** We might talk about maybe putting a supplementary piece just based – because I think Perry is going to go to some of the hearings in Melbourne on Thursday as well. So we might just put in a supplementary piece in the next week or so.

MR COPPEL: Thank you very much.

MS CILENTO: Thanks very much. Now, that's the end of official or the people on our list. But I am happy to call for any comments from the floor.
5 Did you want to come forward? If you wouldn't mind just introducing yourself, or course.

MS DANKS: First off, my apologies to the Commission that we didn't say that we would speak to our submission. But having heard everyone talking
10 today, I thought that I better say something.

MS CILENTO: Sure.

MS DANKS: My name is Susan Danks. I'm a licensed Customs broker.
15 I'm ex-Customs. I'm a very senior tariff consultant. I was director training of our professional body for 11 years until last year. I wrote the Customs brokers training course for Australia, or most of it. I tell you that so that you know what I'm talking about. I'm here today for Wise Tech. Wise Tech is the leading software provider to our industry in Australia. When I
20 say "our industry", Customs brokers and freight forwarders. It's a public company, a \$2 billion public company. It's Australian and it has offices in 162 other countries in which it also reports to Customs and various regulatory authorities. I would like today just to bring – and I'm not sure whether you've even seen our submission, given I only lodged it yesterday
25 afternoon. My apologies.

You would be aware from the discussion paper that anything over \$1000 requires a formal entry into Australia. All of those go through one of the roughly 1800 Customs brokers in Australia. However, any other
30 cargo arriving in Australia is also reported to Customs. Consignments – and there are, I think, based on the information given by the Commission at the last industry summit, which was 31 July in Melbourne, there's roughly 24 million air freight consignments, 8 million sea freight consignments and something like 100 million parcels post. Anything under \$1000 doesn't
35 have a formal Customs entry lodged, but it is reported to Customs and it's reported to Customs either on an airway bill or a consignment note.

KPEC, that is, the couriers and the freight forwarders, report on their airway bill. They're required to do that within a nominated period with
40 nominated fields filled in. Post, most people don't realise it, is also reported to Customs. Now, we're not talking letters here; we're talking little parcels, which is probably what the Commission is most interested in.

It comes in through EMS which is – I forget what that stands for. But
45 it is also reported to Customs on consignment notes. There is so much

5 parcels post comes into the country that Wise Tech, who was asked to report it to Customs by Customs, does it in batches overnight. Otherwise it would break the integrated cargo system because of the sheer volume of it. In looking at how we are going to collect the GST, we need to look at (a) the costs and (b) how it's going to be achieved.

10 The studies in 2011-12 and some of the recent information on the discussion paper indicates that a lot of the models, the collection costs will actually be greater than the GST gained. Of course, we don't want that. But it would be very nice to collect some of the charges that the country is otherwise missing out on. There's a really easy way to do it. It was actually covered off in the Act because when this new process comes in – and, unfortunately, KPEC members I don't think are here.

15 But the process is that they will have an import processing fee placed on the cargo that is currently in the industry what we call a SAC. If it's under \$1000, it comes in on an, it's air freight, an air cargo SAC. That volume goes through the computer and the computer says under \$1000 and screens it free. If it comes to a Customs broker by mistake, I will lodge what's called a SAC, but it's not cleared on the airway bill, and I will screen it free. That's what happened with all of it.

20 There are values on it. The integrated cargo system is already set up for the vendor model but it's only a couple of fields, no big deal. But the vendor model, as suggested, is going to get a very low compliance rate and I think everyone here has agreed with that today. The ATO studies show that after six years perhaps we'll get 60 per cent. But if you put it back that a fee was collected on the airway bill or the con note when it was reported to Customs, just as there will already be an import processing fee, your problem goes away.

MS CILENTO: Who pays that fee then? Is that the - - -

35 **MS DANKS:** Well, the way it would happen is that say you buy something from Amazon at the moment, say you buy a widget – couldn't think of – whatever – and you buy it and it comes back and says it's going to cost you \$40 freight. You think right, fine, I'll pay that. All the carrier does, whomever the carrier is, is add what we would suggest is a fixed fee on. The huge majority – and the amount, I'm sorry, is in the Commission's discussion paper. The huge majority is under \$100.

45 Address this in two ways: (a) is the low value threshold too high? Should we lower it? In Canada it's \$20 and other countries are carefully watching what we're doing. No one has \$1000, but that was put in for fair and reasonable reasons at the time. So (a) look at the low value threshold,

is \$1000 too high? If it is, lower it to whatever amount is decided. Once you're over the low value threshold, whatever it is, full import declaration is required and there is better control of the goods.

5 At the moment there is so much stuff coming into the country – and I wouldn't say – there are bigger problems than counterfeit goods, drugs, quarantine. Quarantine is a huge one. Mooncakes every time there's a Chinese festival. If we look at lowering the threshold and put it in at – I don't know – whatever – it used to be \$400 and I think one time in my
10 history it was even 250. So lower the threshold and then anything under that goes through as normally but with a processing fee on top.

 As I said, there will be a processing fee. We cannot rely on the values declared on airway bills and on consignment notes. Too often, as someone
15 that's been in the industry for roughly a hundred years – sorry if I've just lied to a Commission – but for a long time, then that's achievable. We're going to impose import processing fees anyway. Those import processing fees have not yet been determined, but on the basis of government legislation will be calculated in – should be calculated in accordance with
20 cost recovery fees. It will be a combination of Customs and quarantine. Quarantine, I think, have said theirs is about 10 or 12 dollars.

MS CILENTO: I'm interested though I think – because there's a couple of issues it seems like you're sort of addressing, which is the need for
25 greater scrutiny of parcels that come in, the need to have a processing fee that addresses that that's cost recovery. The issue that has also been put – and you would have heard earlier today – is from the perspective of retailers a tax neutrality of level the playing field. They're competing with goods overseas, which aren't at the same price, in part because they don't have to
30 pay the 10 per cent GST. I get what you're saying about the need, from your perspective, for greater control of what comes across the border and the need for there to be cost recovery. I think there is still an unanswered question for us around the issue of the tax treatment of these goods.

35 **MS DANKS:** The way to handle that – as I said, there's already going to be a charge on it. Then put a fixed fee on it. Say you put \$250 on it, most of them, I think your own studies show under \$100 in the discussion paper. So if an amount of 5 or 10 dollars, just a fixed amount, was put on each consignment - - -

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MS CILENTO: In addition to the processing charge.

MS DANKS: - - - in addition to the processing charge, it would not be less
45 than the GST payable. It would not delay the consignment. It's a known cost that could be added when the freight was determined. The forwarder

in collecting the money or whomever, Amazon, whomever, knows that it's going to cost them \$40 freight, plus \$10 import processing, plus \$5, \$10 or whatever GST recovery fee. That also fits in, I think, with our obligations under the US Free Trade Agreement because there is actually a prohibition in the US Free Trade Agreement about imposing additional duties and taxes. But we are allowed to impose fees, the cost recover.

MS CILENTO: I don't know that our own GST falls foul there. I think a random charge by virtue of being imported might fall foul of some of our WTO obligations, looking at Tom. I'm not sure.

MS DANKS: Then if the value on the airway bill or the consignment note was taken to be correct, then it just means calculating it at 10 per cent of that amount.

MS CILENTO: I'm interested in your experience. When charges are applied to goods coming in, how often do people not come and collect them?

MS DANKS: That's the big issue that we have with the smaller ones. I was talking to someone in regard to a set of brake pads held at a courier's. And there's always a problem with asbestos. The person to whom they're consigned has decided not to come and get them. The courier has to do something with them. He can't throw them in the bin, they're a prohibited import. He can't export them, they're a prohibited export. He has to destroy them in some way that's going to cost him an arm and a leg. If the goods are not – if the fees are not payable, there are significant potential costs to Customs brokers and freight forwarders in deciding what they're going to do with it.

Now, that's a bit of an extreme case, but it does happen. Often the things that are not paid for are the things that they're not allowed to have in the first place or people just don't realise. They don't think when they order their stuff. Thank you.

MS CILENTO: Thank you. Anyone else interested in making any comments before us? Then I get to formally conclude today's proceedings and adjourn the proceedings until Thursday when we recommence in Melbourne. Thank you again, everyone.

**MATTER ADJOURNED AT 3.01 PM UNTIL
THURSDAY, 24 AUGUST 2017**