

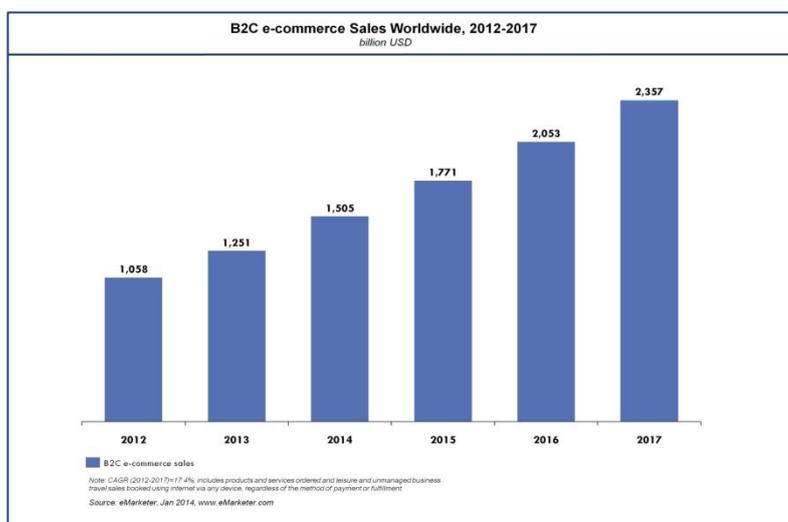
Cross-border E-commerce Trade – Engine for Growth Proposals for Reducing Supply Chain Barriers

Position Paper by the Global Express Association (GEA)¹

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Opportunities

E-commerce — broadly defined as the use of the Internet as a platform for sales, sourcing, and exchange of market information — will play an increasingly important role in supporting global economic growth. According to the McKinsey Global Institute the share of e-commerce of total goods trade has grown from 3.0% in 2005 to 12.1% in 2012.² The global e-commerce market is expected to reach US\$ 1.5 trillion, up by 20.2% from 2013. The average growth rate between 2012 and 2017 is estimated at 17.4% and the global sales in 2017 are expected to exceed US\$ 2.3 trillion. The economic changes brought by e-commerce have already had a large impact on the changing role of the regions in the global economy, for example, with the e-commerce markets in the Asia-Pacific region expected to surpass for the first time those in North America in 2014.³



Governments around the world have recognized e-commerce as an engine of future economic growth and need to adopt policies that will stimulate the growth of e-commerce in their economies while ensuring compliance with relevant laws and regulations. The policy implications of e-commerce are no doubt complex but policy makers have a unique opportunity to embrace a different way of doing business and develop regulatory policies to grow e-commerce in a sustainable manner for their respective economies.

To take full advantage of the information and communication advances of the internet, producers and consumers of physical goods must have access to efficient, reliable transportation networks. The internet is global, so those transportation networks must also be global. The movement of physical goods is logistics. According to the World Bank, “the importance of good logistics performance for economic growth, diversification, and poverty reduction is now firmly established.”⁴ The link between the availability of efficient logistics services and economic growth has been demonstrated in numerous economic studies, and the rise of e-commerce will strengthen that link.

¹ The Global Express Association is the trade association of the global express carriers: DHL Express, FedEx Express, TNT and UPS.

² Global flows in a digital age: How trade, finance, people, and data connect the world economy, McKinsey Global Institute, April 2014

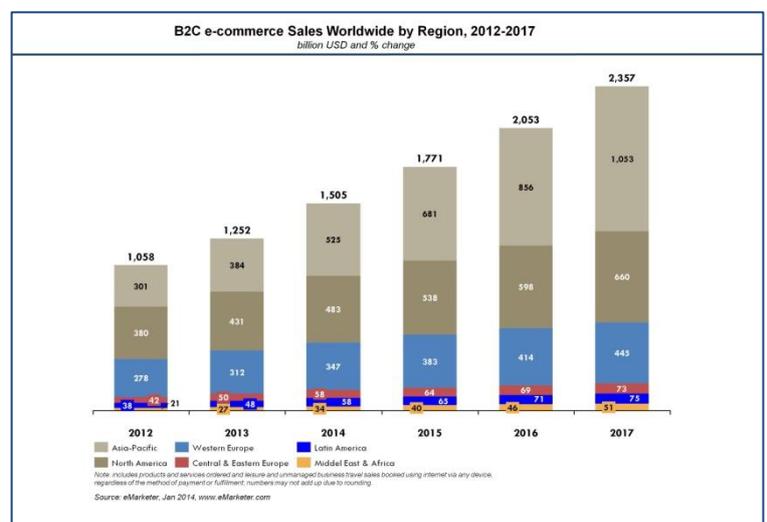
³ eMarketer, Jan 2014, www.emarketer.com

⁴ World Bank “Connecting to Compete 2014: Trade Logistics in the Global Economy”

Challenges

The physical flow of goods across borders resulting from e-commerce trade is facing the same challenges as the traditional flow of goods in terms of cost and time of border formalities. The main problems at the border are regulatory - laws, policies, processes and procedures that slow down the movement of goods. The World Economic Forum's Enabling Trade Report 2013 estimates that lowering supply-chain barriers could increase e-commerce cross-border trade by as much as 60%-80%. **The express delivery industry strongly encourages Governments to adopt and implement international agreements such as the WTO Trade Facilitation Agreement and the WCO Revised Kyoto Convention⁵.**

Complicated border clearance procedures are a problem for all international trade, but they can be an even greater obstacle for small and medium size companies ("SMEs"). The high costs of determining import requirements and completing excessive paperwork hampers e-commerce. Retailers risk their reputations – and in the case of SMEs often their very survival – with customs holds, late deliveries, or inefficient return procedures – all of which are common in many regions. Retailers in particular are most concerned about the quality of fulfilling an order – the more important part of their interaction with their customers.



For e-commerce to be successful, the cost associated with fulfilling the order must be worth it in the eyes of the customer. The Organization for Economic Co-operation and Development (OECD) has estimated that customs barriers can add up to 24 percent premium onto the price of goods sold⁶. Striving to simplify, standardise and harmonise customs procedures across the world would greatly simplify trade and have a direct positive impact on costs.

Governments and multinational companies were once the only actors involved in cross-border exchanges, but today digital technologies enable even the smallest company or individual entrepreneur to be a "micromultinational" that sells and sources products, services, and ideas across borders. Traditional business models are being challenged by micro-scale activities ranging from micro-work to micropayments and microshipments.⁷

This shift to smaller shipments, in particular, those between businesses and consumers (B2C), has created additional challenges for Industry and Governments. According to the McKinsey Global Institute, more than 90 percent of eBay commercial sellers export to other countries, compared with an average of less than 25 percent of traditional small businesses. Online platforms enable even the smallest SMEs and even individuals to become micro-

⁵ International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention), adopted by the World Customs Organization in June 1999

⁶ Evdokia Moïse and Florian Le Bris (2013), "Trade Costs: What have we learned? A Synthesis Report", OECD Trade Policy Paper No. 150

⁷ Global flows in a digital age: How trade, finance, people, and data connect the world economy, McKinsey Global Institute, April 2014



multinationals. Thus, countries that want to stimulate growth within their SMEs should see global e-commerce as an extraordinary opportunity. SME wholesalers, retailers and manufacturers can all benefit from e-commerce.

Governments have a legitimate interest in controlling their borders to prevent fraud, revenue leakage, IPR violations or other illicit trade. E-commerce may present new challenges and concerns for customs agencies, but e-commerce transactions are no more risky than other international transactions. They simply involve new participants in the global economy. It is also important to keep in mind that the volumes of cross-border e-commerce, while growing, are still a tiny fraction of global trade. Erecting new barriers against e-commerce shipments, which many countries are doing, will only impede the growth of legitimate e-commerce business while having very little impact on illicit shipments.

Instead, governments should use intelligence led and risk-based selectivity and targeting and seek the cooperation with legitimate traders to identify and target high-risk shipments. Now is the time for collaboration between shippers, carriers and border agencies to assess the risks and opportunities presented by e-commerce and to design smart and effective policies that both secure and facilitate the growth of this incredibly important economic activity.

Industry Action

The four express delivery companies represented by the Global Express Association (GEA) are committed to cooperate with Customs to address e-commerce related offences as trustworthy partners. We are assisting Customs as follows:

- **Advance electronic shipment information:** Express delivery companies transmit electronic information in advance of arrival of shipments so that Customs can perform risk assessment and target shipments for further examination.
- **Risk assessment:** Express delivery companies conduct risk assessment and validation of the data provided by the shipper based on plausibility checks, incl. unacceptable goods descriptions such as those published by Customs.
- **Track and Trace** systems allow packages identified by Customs as suspicious to be removed from traffic flows and provided to Customs officers for further examination.
- **Facilities:** Express delivery companies provide Customs officers at express delivery hubs with adequate facilities and equipment for them to identify and examine suspect shipments efficiently.
- **Information on shippers and consignees:** Express delivery companies provide Customs administrations with available relevant information that may legally be disclosed on shippers and consignees of shipments identified as containing offending goods.
- **Close accounts** of customers publicly identified by Customs as repeat offenders.

However, there are practical limits to what express delivery companies can do, such as

- Express delivery companies are not originators of information about shipments. There are clearly limits on the quantity of information that can be obtained from customers;



- Express delivery companies are not law enforcement agencies. They are subject to national data protection and commercial information confidentiality rules. Customs are the competent authority to enforce laws, conduct risk assessments, and making seizures of illegal items.

Recommendations for Border Agencies/Governments

While there are many regulatory challenges in B2C e-commerce trade, including important issues such as taxation and consumer protection, regulators should work with responsible suppliers to lower the impediments to B2C e-commerce. Fair competition among public and private delivery service providers will reduce transportation costs, increase quality of service and promote the growth of e-commerce. Allowing consumers to make their own choices about where to shop not only improves citizens' lives, it also lowers costs and drives efficiency throughout the economy. The following are our recommendations on how e-commerce supply chain barriers can be addressed:

1. Implement the WCO Immediate Release Guidelines, including commercially meaningful de minimis thresholds for all Customs and taxes;
2. Use risk management to address revenue, safety and security concerns and seek cooperation with express carriers to improve targeting;
3. Provide equal and fair border treatment to public and private delivery service providers;
4. Enable electronic filing and e-payment, preferably through a single window;
5. Simplify exporter/importer registration and power of attorney requirements;
6. Implement simplified process for returned shipments;
7. Apply pre-arrival processing and separate release from clearance;
8. Adopt simplified rules of origin procedures, including self-certification of country of origin;
9. Adopt time-definite release commitments;
10. Provide for 24 x 7 border clearance, where possible and required by business.