



**eBay Canada**

**Submission to the House of Commons Standing Committee on Finance**

**February 2016 Pre-Budget Consultations**

*Summary: eBay Canada is proposing that the Standing Committee on Finance recommend that the Government of Canada increase the Canadian de minimis threshold from its current rate of \$20.*



## Overview

eBay is one of the world's largest online marketplaces, connecting people with the things they need and love virtually anytime, anywhere. eBay is a top e-commerce destination for Canadians, receiving eight million unique Canadian visits each month, and Canadians spend more than \$1 billion on eBay annually. Canadians coming to eBay gain access to a global marketplace, with more than 200 million items available.

eBay is the preeminent platform for businesses of all sizes to join the online economy. Many entrepreneurs use eBay as their primary sales channel, and even established retailers such as Lowes and Toys R Us utilize eBay's platform in Canada. Canadian sellers sell more than one million items each month on eBay.

eBay Canada is proposing that the Standing Committee on Finance recommend that the Government of Canada increase the Canadian de minimis threshold from its current rate of \$20. The de minimis threshold is the level below which shipments can enter Canada without being assessed for duty. Canada's de minimis currently stands at \$20, a rate initially set in the 1980s. (Had it kept up with inflation, the de minimis threshold would now stand at more than \$40.) Canada's de minimis is among the lowest threshold in the world, putting Canada in line with Uganda and Jordan.

Country	De Minimis Threshold	
	Local	Approximate Conversion
Canada	20 CAD	
United States	200 USD (legislation passed to move to 800 USD) <sup>1</sup>	253.12 CAD (1012 CAD)
Australia	1,000 AUD	948.43 CAD
New Zealand	400 NZD	338.24 CAD
Mexico	50 USD	63.28 CAD
Uganda	10 USD	12.66 CAD
Jordan	20 Jordan Dinars	35.95 CAD

An analysis of the Canadian de minimis threshold was recommended in the 2013 report of the Standing Senate Committee on National Finance, the Canada-USA Price Gap, on the basis that an increase would "narrow the price discrepancies for certain goods between Canada and the United States."<sup>2</sup> However, there are numerous other benefits to consumers, small businesses and government associated with raising the de minimis threshold.

<sup>1</sup> <https://www.congress.gov/bill/114th-congress/house-bill/644#>

<sup>2</sup> <http://www.parl.gc.ca/content/sen/committee/411/nffn/rep/rep16feb13-e.pdf>



## Cost and Benefits

Sidley Austin LLP has conducted a rigorous analysis of the costs and benefits of various de minimis increase scenarios, which show significant benefits to consumers and businesses, while also being revenue neutral or positive to government.<sup>3</sup> Benefits of increasing the de minimis include:

### (1) Improved efficiencies for government

Since the current de minimis threshold is the same as it was in the 1980s, the real value of the \$20 threshold has been significantly eroded by inflation. Over the same period, the costs associated with collecting the duties and taxes payable on shipments have increased. A study in World Customs Journal has estimated that the cost for the Government of Canada to process and collect duty on low value packages in Canada exceeds the duty collected by the government.<sup>4</sup>

In fact, we are aware that CBSA and Canada Post do not strictly enforce the current \$20 de minimis threshold. The inconsistent approach to enforcement, particularly for shipments under \$100, supports the conclusion that the cost to collect duties and taxes on low-value shipments far outweighs the revenue payable to the government.

Unfortunately, neither consumers nor businesses can predict when the threshold will be applied, creating unnecessary uncertainty, and in the case of businesses, costs. Increasing the de minimis to a point where collection is revenue-neutral or better will ensure that the threshold can be consistently enforced and will create certainty for businesses and consumers as well as fiscal benefits for the government.

Sidley Austin's findings show that the Government is currently spending \$166 million (CAD) to collect just \$39 million in duty and taxes on goods valued between \$20 and \$80, and that if the de minimis were increased to that level, the government could either recognize \$127 million in savings or reinvest that money in collecting duties and taxes on higher valued goods, bringing in another \$34 million.<sup>5</sup> Considering items between \$20 and \$200, the difference between the cost to collect (\$278 million) and the amount reclaimed (\$117 million) is even greater, suggesting the possible savings for government are even more substantial.<sup>6</sup>

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<sup>3</sup> Sidley Austin LLP - Economic effects of raising the de minimis threshold in Canada

<sup>4</sup> [http://www.worldcustomsjournal.org/media/wcj/-2012/1/Holloway\\_Rae.pdf](http://www.worldcustomsjournal.org/media/wcj/-2012/1/Holloway_Rae.pdf)

<sup>5</sup> Sidley Austin LLP - Economic effects of raising the de minimis threshold in Canada

<sup>6</sup> Sidley Austin LLP - Economic effects of raising the de minimis threshold in Canada



## **(2) Reduced red tape for business**

One of the most significant barriers for small businesses created by Canada's low de minimis threshold is the impact it has on imported low-value business inputs as well as purchases returned by foreign buyers. Canadian small businesses, like their competitors around the world, increasingly rely on international supply chains. Low-value inputs imported by small businesses are often shipped via the postal system or private couriers and are assessed for duties and taxes at the border. Similarly, to compete in an international marketplace, Canadian e-commerce sellers must offer returns to all buyers, but when exported purchases are returned to Canada they are often assessed with duty and tax. In both of these cases, the duties and taxes charged on these goods, as well as the associated brokerage costs, increase the costs borne by Canadian small businesses and put them at a competitive disadvantage relative to their international peers.

While small e-commerce businesses can, in theory, reclaim taxes paid on business inputs and amounts assessed on merchandise returns, doing so drives significant administrative costs: Often, the cost associated with reclaiming these duties or taxes exceeds the amount of the duty or tax itself. eBay Canada has surveyed a variety of its sellers on this topic and has found that some simply absorb these 'extra' duties and taxes rather than devote resources to reclaiming those amounts.

An OECD study found that trade transaction costs for companies with 250 or fewer employees are 30-45 percent higher than those incurred by other firms.<sup>7</sup> Unsurprisingly, smaller businesses view customs delays as the most significant trade barrier they face.<sup>8</sup> Additionally, the time taken in the administration of duty significantly affects businesses, as they incur costs (or reduced cash flows) when goods are held at the border. While bigger businesses can access private logistics chains and pre-clear goods, small businesses do not have this option.

Sidley Austin's study has found that an increase in the de minimis from \$20 to \$80 would benefit Canadian businesses by between \$102 to \$108 million, an amount largely driven by savings on brokerage fees and administration costs, as well as faster clearance of goods across the Canadian border.

Analysis of Canadian small businesses on eBay show that nearly all export (99.8%) and they reach an astounding average of 20 markets each.<sup>9</sup> These thousands of small businesses demonstrate the tremendous power of Internet-enabled trade, but they also evidence the need for Canadian border policies – particular the de minimis threshold – to be brought into better alignment with international standards.

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<sup>7</sup> [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TD/TC/WP\(2003\)31/FINAL&docLanguage=EN](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TD/TC/WP(2003)31/FINAL&docLanguage=EN)

<sup>8</sup> [http://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals\\_Global-Consumers\\_WTO\\_Rep\\_1.pdf](http://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals_Global-Consumers_WTO_Rep_1.pdf)

<sup>9</sup> <http://www.newswire.ca/news-releases/optimism-among-canadian-smb-exporters-despite-economic-challenges-567491761.html>



### **(3) Regional fairness**

In Budget 2012, the Government of Canada increased the value of goods that could be imported duty- and tax-free by Canadian residents returning from abroad to \$200 for an absence of 24 hours and \$800 for an absence of 48 hours.<sup>10</sup> However, there was no increase for inbound parcel shipments.

This lack of a corresponding increase to the de minimis threshold puts remote communities and Northern Canadians at a disadvantage. They are unable to take advantage of the in-person absence limits as easily; in fact, *“while the majority of Canadian in-person cross border shoppers live less than 18 miles from the US border, the majority of Canadians reside more than 81 miles away.”*<sup>11</sup> Additionally, these Canadians have a smaller range products to choose from in local stores, making e-commerce even more important in rural areas. By increasing the de minimis threshold (and aligning it with the personal exemption for 24-hour trips abroad), all Canadians, regardless of where they live, would benefit from increased duty limits.

Additionally, increasing the de minimis threshold could have broader positive benefits by leading to long-term price reductions for all consumers. Last year, a C.D. Howe Institute report pointed to an increased de minimis threshold as one of the best ways to address the Canada-US price disparity because *“even modest distances are enough to prevent most consumers from cross-border shopping, limiting the pressure on manufactures to set similar prices in each country.”*<sup>12</sup>

### **(4) Increased parcel volume for Canada Post**

A recent eBay study – Commerce 3.0 – showed that many small businesses who export using technology platforms such as eBay utilise public logistics chains such as Canada Post almost exclusively.<sup>13</sup> As such, an increase to the Canada de minimis would lead to increased cross border package and parcel shipments for Canada Post, which has seen falling revenue in recent years.

While Canada Post’s total volume of deliveries fell by 3.4 per cent in 2014, the volume of parcels delivered was up 9.2 percent.<sup>14</sup> This growth is higher even than the 6.9 percent growth seen in 2013.<sup>15</sup> Both Canada Post and business commentators have recognized that e-commerce is vital to

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<sup>10</sup> <http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>

<sup>11</sup> [http://strategy.sauder.ubc.ca/head/papers/crossings\\_final.pdf](http://strategy.sauder.ubc.ca/head/papers/crossings_final.pdf)

<sup>12</sup> [http://www.cdhowe.org/pdf/Commentary\\_409.pdf](http://www.cdhowe.org/pdf/Commentary_409.pdf)

<sup>13</sup> <https://www.ebaymainstreet.com/sites/default/files/canada-commerce-3.pdf>

<sup>14</sup> [https://www.canadapost.ca/assets/pdf/aboutus/financialreports/2014\\_ar\\_complete\\_en.pdf](https://www.canadapost.ca/assets/pdf/aboutus/financialreports/2014_ar_complete_en.pdf)

<sup>15</sup> [https://www.canadapost.ca/cpo/mc/assets/pdf/aboutus/annualreport/2013\\_ar\\_overview\\_en.pdf](https://www.canadapost.ca/cpo/mc/assets/pdf/aboutus/annualreport/2013_ar_overview_en.pdf)



Canada Post's future,<sup>16</sup> and the launch of projects such as "Delivered Tonight" demonstrate that the ability to capitalize on e-retail is already paying dividends.<sup>17</sup>

## Broad Support

A number of businesses and industry associations support an increase to the de minimis threshold. Public letters to then-Ministers of Trade, Ed Fast, and of Finance, Jim Flaherty, (October 2013)<sup>18</sup> and to then-Minister of Industry James Moore (April 2014)<sup>19</sup> show the broad range of groups who support such a change.

Increasing the de minimis threshold has also been recommended by the C.D. Howe Institute, with a 2014 report on cross border price discrimination stating "[t]he government should also consider building on recent actions that allow consumers to pay US prices for goods by increasing duty-free exemptions for travellers and postal shipments."<sup>20</sup>

With the US de minimis likely to increase in the near future, twelve US Senators signed a joint letter to Ambassador Doer calling on Canada to increase the de minimis, "to bolster increased economic growth for both countries."<sup>21</sup>

A number of major international organizations have also called for increases to de minimis thresholds globally. APEC released a joint statement in 2011, agreed to by all members including Canada, calling on member states to implement "commercially useful de minimis values in our economies that will exempt low-value shipments from customs duties and streamline entry documentation requirements."<sup>22</sup> Additionally, the International Chamber of Commerce has called for all governments to implement a "commercially significant *de minimis* value of US\$ 1,000."<sup>23</sup>

## Public Perception

In 2014, eBay commissioned Environics Research Group to carry out independent polling related to Canadians' understanding and perception of the de minimis threshold. Only 4% of Canadians were able

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<sup>16</sup> <http://www.theglobeandmail.com/report-on-business/rob-magazine/canada-post-bets-on-efficiency-to-prevent-becoming-digital-roadkill/article20192738/?page=all>

<sup>17</sup> [http://www.canadapost.ca/cpo/mc/aboutus/news/pr/2013/2013\\_delivered\\_tonight.jsf](http://www.canadapost.ca/cpo/mc/aboutus/news/pr/2013/2013_delivered_tonight.jsf)

<sup>18</sup> [http://www.naylornetwork.com/pim-nwl/pdf/de\\_minimis\\_Coalition\\_letter\\_-\\_Nov\\_13.pdf](http://www.naylornetwork.com/pim-nwl/pdf/de_minimis_Coalition_letter_-_Nov_13.pdf)

<sup>19</sup> <http://www.manufacturingourfuture.ca/uploads/media/4ykr83kv4.pdf>

<sup>20</sup> [http://www.cdhowe.org/pdf/Commentary\\_409.pdf](http://www.cdhowe.org/pdf/Commentary_409.pdf)

<sup>21</sup> [http://www.ebaymainstreet.com/sites/default/files/2015-03-02\\_de-minimis-threshold-letter.pdf](http://www.ebaymainstreet.com/sites/default/files/2015-03-02_de-minimis-threshold-letter.pdf)

<sup>22</sup> [http://www.apec.org/Meeting-Papers/Leaders-Declarations/2011/2011\\_aelm.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/2011/2011_aelm.aspx)

<sup>23</sup> [http://www.iccwbo.org/Advocacy-Codes-and-Rules/Document-centre/2015/ICC-Policy-Statement-on-Global-Baseline-De-Minimis-Value-Thresholds-\(2015\)/](http://www.iccwbo.org/Advocacy-Codes-and-Rules/Document-centre/2015/ICC-Policy-Statement-on-Global-Baseline-De-Minimis-Value-Thresholds-(2015)/)



to correctly identify the current \$20 threshold, with most respondents picking a considerably higher threshold (at an average of \$689.55).

The poll also showed considerable support for raising the de minimis. Only 17% believed that the current \$20 limit was “about right”, compared to 63% who agreed that the \$20 threshold was too low.

These results mirrored a CBC online poll from 2014, which showed that 66% of respondents believed Canada should increase the de minimis threshold.<sup>24</sup>

## **Conclusion**

Increasing Canada’s de minimis threshold from its current rate of \$20 would have significant benefits for government, business and consumers, all while having a net positive effect on the treasury. We look forward to appearing before the Committee to discuss this proposal in more detail.

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<sup>24</sup> <http://www.cbc.ca/newsblogs/politics/inside-politics-blog/2014/11/power-politics-ballot-box-question-530.html>