



eBay Canada

Submission to the House of Commons Standing Committee on Finance

Pre-Budget Consultations for the 2017 Federal Budget

Summary: To help both Canadians generally (consumers) and Canada's businesses (SMBs) contribute to the country's economic growth, 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 more than eight million unique Canadian visits each month, with Canadians spending more than \$1 billion on eBay annually. Canadians using eBay gain access to a global marketplace, with more than 1 billion items available.

eBay is the preeminent platform for businesses of all sizes to join the online economy, with many entrepreneurs using eBay as their primary sales channel. All told, 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 or taxes. Canada's de minimis currently stands at \$20, a rate initially set in the 1980s. (Had it increased to remain consistent with inflation, the de minimis threshold would now stand at almost \$45.) Canada's de minimis is the lowest in the industrialized world and among the lowest globally, ranking Canada alongside Uganda and Jordan.

Country	De Minimis Threshold	
	Local	Approximate Conversion
Canada	20 CAD	
United States	800 USD	1035.64 CAD
Australia	1,000 AUD	966.01CAD
New Zealand	400 NZD	370.06CAD
Mexico	300 USD (via Post)	391.41 CAD
Uganda	10 USD	12.95 CAD
Jordan	20 Jordan Dinars	36.58 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."¹ However, there are numerous other benefits to consumers, small businesses and government associated with raising the de minimis threshold.

¹ <http://www.parl.gc.ca/content/sen/committee/411/nffn/rep/rep16feb13-e.pdf>



Cost and Benefits

A new report by the C.D. Howe Institute, *Rights of Passage: The Economic Effects of Raising the de minimis Threshold in Canada*, reviews the costs and benefits of various de minimis-increase scenarios, which demonstrate significant benefits to consumers and businesses – particularly small and medium-sized businesses - while also being fiscally neutral or positive to government.² In fact, Christine McDaniel, one of the report’s authors, has concluded: “we find that lifting the threshold would have a net economic benefit of up to C\$648 million.”³ Specific benefits of increasing the de minimis include:

(1) Improved efficiencies for government

As the current de minimis threshold has remained unchanged since 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 incurred by the Government of Canada to process and collect duty on low value packages in Canada exceeds the amount of duty collected.⁴

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 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 while generating fiscal benefits for the government.

The C.D. Howe Reports shows 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 into more consistent collection of duties and taxes on higher valued goods to bring in revenues of \$34 million.⁵ Considering items between \$20 and \$200, the difference between the cost to collect (\$278 million) and the amount reclaimed (\$117 million) yields even greater savings for government.

² C.D. Howe Institute - Rights of Passage: The Economic Effects of Raising the de minimis Threshold in Canada

³ [C.D. Howe Institute - Rights of Passage: The Economic Effects of Raising the de minimis Threshold in Canada](#)

⁴ http://www.worldcustomsjournal.org/media/wcj/-2012/1/Holloway_Rae.pdf

⁵ C.D. Howe Institute - Rights of Passage: The 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.⁶ Unsurprisingly, smaller businesses view customs delays as the most significant trade barrier they face.⁷ 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.

The CD Howe Institute's study has found that an increase in the de minimis from \$20 to \$80 would benefit Canadian businesses by more than \$100 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 shows that nearly all export (99.8%) and reach an astounding average of 20 markets each.⁸ 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 better aligned with international standards.

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[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)

⁷ http://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals_Global-Consumers_WTO_Rep_1.pdf

⁸ <http://www.newswire.ca/news-releases/optimism-among-canadian-smb-exporters-despite-economic-challenges-567491761.html>



(3) Consumer 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.⁹ However, there was no increase for inbound parcel shipments.

This lack of a corresponding increase to the de minimis threshold puts remote communities/Northern Canadians as well as low income families at an unfair disadvantage. These groups have less of an ability to travel across the border and take advantage of the in-person absence limits; 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.”*¹⁰

Additionally, Canadians in Northern/remote communities often have a smaller range of products to choose from in local stores, thus amplifying the value of e-commerce 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 or how much they make would benefit from the existing duty limits.

Additionally, increasing the de minimis threshold could have a broader range of benefits by leading to long-term price reductions for all consumers. In 2014, 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.”*¹¹

(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 providers such as Canada Post almost exclusively.¹² However, each year Canadian consumers ship millions of packages to U.S. addresses (including significant numbers to border towns) so as to avoid the costly de minimis duty and taxes. This diversion of ecommerce packages represents a significant source of lost revenue to Canada Post. As such, an increase to Canada’s de minimis would lead to increased cross border package and parcel shipments for Canada Post and, as a consequence, increased revenue.

⁹ <http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>

¹⁰ http://strategy.sauder.ubc.ca/head/papers/crossings_final.pdf

¹¹ http://www.cdhowe.org/pdf/Commentary_409.pdf

¹² <https://www.ebaymainstreet.com/sites/default/files/canada-commerce-3.pdf>



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 Finance, Jim Flaherty, (October 2013)¹³ and to then-Minister of Industry James Moore (April 2014)¹⁴ display the broad range of groups who support such a change. Most recently, a group of 12 Canadian small business owners sent an open letter to Prime Minister Justin Trudeau concluding that “more needs to be done to ensure our businesses are internationally competitive in the years ahead – including an increase to Canada’s de minimis threshold.”¹⁵

The recent the C.D. Howe Institute report highlights the inefficiency of the current de minimis threshold, and demonstrates how raising the threshold could alleviate inefficiencies for small and medium-sized businesses while yielding cost savings for government, consumers and businesses.¹⁶

As the US de minimis recently increased from \$200 USD to \$800 USD, twelve US Senators signed a joint letter to Ambassador Doer calling on Canada to increase its de minimis, “to bolster increased economic growth for both countries.”¹⁷

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.”¹⁸ Additionally, the International Chamber of Commerce has called for all governments to implement a “commercially significant *de minimis* value of US\$ 1,000.”¹⁹

Conclusion

Increasing Canada’s de minimis threshold from its current rate of \$20 would yield 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.

¹³ http://www.naylornetwork.com/pim-nwl/pdf/de_minimis_Coalition_letter_-_Nov_13.pdf

¹⁴ <http://www.manufacturingourfuture.ca/uploads/media/4ykr83kv4.pdf>

¹⁵ <http://www.ebaymainstreet.com/canada-letter>

¹⁶ [C.D. Howe Institute - Rights of Passage: The Economic Effects of Raising the de minimis Threshold in Canada](http://www.cdhowe.com/Reports/2015/03/02/Rights_of_Passage_The_Economic_Effects_of_Raising_the_de_minimis_Threshold_in_Canada)

¹⁷ http://www.ebaymainstreet.com/sites/default/files/2015-03-02_de-minimis-threshold-letter.pdf

¹⁸ http://www.apec.org/Meeting-Papers/Leaders-Declarations/2011/2011_aelm.aspx

¹⁹ [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)/)