



eBay Canada

**Submission to the House of Commons Standing Committee on Finance
2014 Pre-Budget Consultations**

eBay Canada is proposing that the Standing Committee on Finance recommend that the Government of Canada increase the de minimis threshold to \$200 in Budget 2015, bringing Canada's threshold in line with that of the US. Increasing the de minimis threshold would: provide consumers with a mechanism to directly address price disparity between Canada and the United States; encourage small businesses to join the global economy; create parity for rural and northern Canadians by aligning the limit for shipments with that for short-term absences; provide efficiencies and cost savings for CBSA; and increase parcel volumes for Canada Post.



About eBay Canada

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 – in May, eBay received eight million unique Canadian visits, and Canadians spend more than \$1 billion on eBay annually. Canadians coming to eBay gain access to a global marketplace, with more than 400 million items available.

Since its creation, eBay has evolved from a consumer-to-consumer platform to a catalyst for small- and medium-sized business. Many entrepreneurs use eBay as their primary sales channel, and even established retailers such as Lowes and Toys R Us utilize eBay's platform.

Our Proposal: Increasing the De Minimis Threshold

eBay Canada is proposing that the Standing Committee on Finance recommend that the Government of Canada increase the de minimis threshold to \$200 in Budget 2015. The de minimis threshold is the level below which shipments can enter Canada without being assessed for duty. The current level in Canada is \$20, a level which has not changed since at least 1985.

There are numerous benefits to consumers, small businesses and government associated with raising the de minimis threshold, which will help the Government of Canada meet its Budget 2013 goal "to identify areas where further tariff liberalization can benefit Canadians."¹ We submit this proposal under the Committee's 'Improving Canada's taxation and regulatory regimes' key theme, and hope to have the opportunity to present the proposal's benefits to the Committee in either Ottawa or Toronto, the location of eBay Canada's headquarters.

Canada's de minimis threshold is among the lowest in the world. A \$200 de minimis threshold would bring Canada in line with the US, our biggest trading partner and closest neighbour.

Country	De Minimis Threshold	
	Local	Approximate Conversion
Canada	20 CAD	
United States	200 USD	218 CAD
Australia	1,000 AUD	1,019 CAD
New Zealand	400 NZD	375 CAD
Mexico	50 USD	55 CAD

¹ <http://www.budget.gc.ca/2013/doc/plan/budget2013-eng.pdf>



There is a growing international trend towards increasing de minimis thresholds. In 2011, ten members of APEC (Asia-Pacific Economic Cooperation) signed the 'Pathfinder to Enhance Supply Chain Connectivity by Establishing a Baseline De Minimis Value,' under which they agreed to raise their de minimis thresholds to a minimum of \$100 USD by 2012.² Additionally, bills with bi-partisan support currently in both the US Senate³ and House of Representatives⁴ would increase the American de minimis threshold to \$800 USD [approximately \$870 Canadian].

While Canada is a member of APEC, it did not join the 'Pathfinder' initiative. However, in the joint statement which followed the 2011 APEC Ministerial Meeting in Honolulu, Canada did endorse the initiative.⁵ Moreover, the same joint statement made a public commitment to *"establish commercially useful de minimis values that under normal circumstances exempt express and postal shipments from customs duties or taxes and from certain entry documentation requirements."*⁶

Benefits to Increasing the De Minimis Threshold:

(1) Addressing Canada-US Price Disparities

In October 2011, the Standing Senate Committee on National Finance was asked by then-Minister of Finance Jim Flaherty to undertake a study into the discrepancy in prices between the US and Canada.⁷ The study's report stated that the Committee *"believes that Canada's low de minimis threshold compared with the United States may contribute to price discrepancies for some goods by reducing competition, increasing the prices paid for postal shipments by Canadian consumers, and imposing higher overall compliance costs on Canadian businesses, principally SMEs."*⁸ As such, the Committee recommended that the *"Government of Canada analyse the costs and benefits of increasing the de minimis threshold for low-value shipments in Canada in order to narrow the price discrepancies for certain goods between Canada and the United States."*⁹

Increasing the cross border exemption limit would lower prices in Canada in two ways. First, it would allow businesses take advantage of lower cost suppliers in other countries, and these costs savings could be passed onto consumers. Secondly, it would allow consumers to directly, and cost-effectively, access international markets in situations where goods are more expensive domestically. This would encourage retailers and manufacturers to find more permanent solutions to lower prices in Canada. In fact, a recent report by the C.D. Howe Institute sets out that increasing the de minimis threshold is one of the best ways to address the Canada-US price disparity because *"even modest*

² http://www.apec.org/Meeting-Papers/Ministerial-Statements/Annual/2011/2011_amm/annex-a.aspx

³ <https://beta.congress.gov/113/bills/s489/BILLS-113s489is.pdf>

⁴ <http://www.gpo.gov/fdsys/pkg/BILLS-113hr1020ih/pdf/BILLS-113hr1020ih.pdf>

⁵ http://www.apec.org/meeting-papers/ministerial-statements/annual/2011/2011_amm.aspx

⁶ *ibid*

⁷ <http://news.nationalpost.com/2011/10/19/senate-launches-study-into-canada-u-s-price-discrepancies/>

⁸ <http://www.parl.gc.ca/content/sen/committee/411/nffn/rep/rep16feb13-e.pdf>

⁹ *ibid*



distances are enough to prevent most consumers from cross-border shopping, limiting the pressure on manufactures to set similar prices in each country.”¹⁰

(2) Encouraging Small Businesses to partake in the global economy

By allowing small businesses to access lower-cost supply chains, an increase to the de minimis threshold would help to reduce the cost of Canadian products – both in absolute terms and relative to their international competitors.

Additionally, goods entering Canada are not only subject to the de minimis threshold when they are purchased by Canadians, but also when they are returned to Canadian exporters after having been sold internationally. Increasing the de minimis threshold would reduce the administrative burden on small Canadian businesses exporting low value goods that are returned, and would remove a significant deterrent to some small businesses exporting.

These benefits are particularly important for internet and technology-based businesses, which regularly cite delays in customs as the most significant barrier to trade that they face.¹¹ eBay analysis has found that technology-enabled small businesses export at a tremendous rate (99.5%) and reach an average of 19 markets. However, while these companies are successful international sellers, their size and business models mean that they are unable to access private logistics systems to ship and pre-clear their goods. As a result, border delays associated with duty administration are a key barrier to trade and would be significantly relieved by an increase in the de minimis threshold.

(3) Creating regional parity

Budget 2012 announced an increase to the value of goods that could be imported duty- and tax-free by Canadian residents returning from abroad after a 24-hour and 48-hour absence to \$200 and \$800, respectively.¹² However, the Government of Canada made no corresponding increase in the exemption limit for inbound e-commerce shipments.

This is significant given that a recent study found that *“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.”¹³* This means that Canadians living in rural, northern and remote communities have benefited far less from the increase to these cross border exemptions than those living close to the border. By aligning the de minimis threshold with that for short-term absences, the Government of Canada can create an element of fairness, ensuring all Canadians, regardless of where they live, are benefiting from increased duty limits.

¹⁰ http://www.cdhowe.org/pdf/Commentary_409.pdf

¹¹ http://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals_Global-Consumers_WTO_Rep_1.pdf

¹² <http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>

¹³ http://strategy.sauder.ubc.ca/head/papers/crossings_final.pdf



(4) Improved efficiencies at CBSA

Each shipment imported into Canada for which duty will be assessed requires a completed customs declaration, and the duty paid before it can be released. While this increases the cost and delivery time for buyers, it also creates significant administrative requirements for Canada Border Services Agency (CBSA) and Canada Post. The lower the de minimis threshold, the larger the volume of customs declarations required, and the higher the cost for CBSA.¹⁴ It is estimated that raising the de minimis threshold in the US from \$200 to \$800 would result in an efficiency gain of \$24 million for the US Customs and Border Protection agency and \$11 million for the US Postal Service.¹⁵

Given the time and effort to process a customs declaration is approximately the same regardless of the declared value, it is likely the cost associated with collecting duty on low value packages in Canada actually exceeds the duty collected for the government. An increased de minimis threshold would therefore lead to significant efficiencies and potentially cost savings for the government.

(5) Increased parcel volume for Canada Post

The growth in e-commerce associated with raising the de minimis threshold would directly lead to increased package and parcel shipments for Canada Post, which has seen falling revenue in recent years. While Canada Post's volume of letters delivered dropped 4.8 per cent in 2013, the volume of parcels delivered was up 6.9 per cent to seven million.¹⁶ Canada Post has recognized the importance of e-commerce shipments in their plans to return to financial stability, and is testing programs such as "Delivered Tonight" to capitalize on the surge in internet-based retailing.¹⁷ Increasing the number of cross border shipments handled by Canada Post would help further increase their parcel volume and revenue.

Public Perception of the De Minimis Limit

The results of independent polling by Environics Research Group show there is little public understanding of the current de minimis threshold, with only 4% of Canadians able to correctly identify the \$20 threshold. The vast majority picked a considerably higher threshold, with the average coming in at \$689.55.

¹⁴ http://www.worldcustomsjournal.org/media/wcj/-2012/1/Holloway_Rae.pdf

¹⁵ <http://www.iie.com/publications/pb/pb11-07.pdf>

¹⁶ https://www.canadapost.ca/cpo/mc/assets/pdf/aboutus/annualreport/2013_ar_overview_en.pdf

¹⁷ http://www.canadapost.ca/cpo/mc/aboutus/news/pr/2013/2013_delivered_tonight.jsf



Additionally, asked what the de minimis value in Canada should be, the results showed considerable support for raising the threshold. Only 17% percent of Canadians thought that the current \$20 limit was “about right”, compared to 63% of Canadians who believed that this level was too low. Furthermore, 66% of Canadians believe that the Canadian de minimis threshold should be the same as the US level, which currently stands at \$200 USD.

These results clearly demonstrate support amongst the public for raising the de minimis threshold, and we can provide the full results on request.

Costing

eBay has engaged with a third party to conduct an independent costing of our proposal. Unfortunately, CBSA has not yet provided us with the data needed to complete this task. We continue to work with the department and the independent third party to undertake this analysis and will provide this information as soon as we are able.

Conclusion

eBay’s proposal to increase the Canadian de minimis threshold from \$20 to \$200 would provide relief for consumers, support for small businesses, and efficiencies for government. The benefits to the economy of this change would therefore be significant: The Peterson Institute for International Economics estimates if the US increased their de minimis threshold from \$200 to \$800, it would result in a \$17 million annual net gain to the American economy.¹⁸ Given that Canada would be increasing from a lower threshold, the possible benefits here in Canada are proportionally greater than in the US. We look forward to the opportunity to present these benefits to the Committee in person during the pre-Budget consultations.

¹⁸<http://www.iie.com/publications/pb/pb11-07.pdf>