



Productivity Commission consultation on Collection Models for GST on Low Value Imported Goods

Australia Post submission

1. Executive Summary

In considering models for GST collection on imported articles, Australia Post considers it important to the Australian marketplace that the collection model chosen achieves a lower level of financial cost and business disruption and appropriately recognises the roles each participant plays in the commercial transaction giving rise to the GST collection and the related importation. Such an outcome would be consistent with recommendations of the Low Value Parcels Processing Taskforce.

The Vendor Registration model provides a lower administrative and cost burden for implementation and aligns the remaining (necessary) burden to the organisation that has the closest relationship with the originating party (i.e. the party that has the direct relationship with the purchaser of the goods subject to the importation and, in turn, the transaction giving rise to the GST collection), while maintaining competitive neutrality between the mail and cargo import streams

By not imposing a requirement for parties that have no existing relationship to transact with each other at the border for items being brought into Australia, Australia Post believes that it will be able to implement processes for it to operate under the Vendor Registration model as introduced by the *Treasury Laws Amendment (GST Low Value Goods) Bill 2017* (Amending Bill) from 1 July 2018.

2. Background

Australia Post plays an integral role in the international supply chain for inbound mail and cargo destined for all Australians. This facilitation of trade and eCommerce supports and strengthens Australia's economy. Australia Post is a Government Business Enterprise and is obliged to perform its functions in a manner consistent with sound commercial practice.

Australia Post has previously expressed its views in relation to tax collection models for low value goods imports on a number of occasions, including in its submissions to the following inquiries:

- Productivity Commission inquiry into the Economic Structure and Performance of the Australian Retail Industry (2011);
- Low Value Parcel Processing Taskforce investigation of low value import processing (2012); and
- Senate Economics Legislation Committee inquiry into the provisions of the Amending Bill (2017).

Australia Post has taken into particular consideration:

- the scope and recommendations from the 2012 report of the Low Value Parcel Processing Taskforce (LVPPT);
- considerations for the international mail environment, including regulatory requirements and cost impacts for implementation; and
- the implications of proposals put forward by other interested parties, including the Amazon hybrid “Modern Transporter Model” proposed at the Productivity Commission’s public hearings on 24 August 2017.

These considerations are summarised below.

3. Low Value Parcel Processing Taskforce

Australia Post has considered the effectiveness of the amendments introduced by the Amending Bill against the terms of reference under which the LVPPT undertook its investigation in 2012.

In Australia Post’s view, the Vendor Registration model addresses the concerns raised by the LVPPT investigation, in particular because:

- it provides a lesser burden for administration for the mail and cargo streams;
- it will not delay trade facilitation of items coming through the mail or cargo streams, as collection is not provided at the border;
- it maintains competitive neutrality between the mail and cargo import streams, as registration is with the Australian Taxation Office;
- it will not require postal regulatory reform to be negotiated, or for complex multilateral agreements to be put in place with postal partners – both of which would be required and would extend implementation timing under other models;
- it places the responsibility back onto the importer/supplier, who is closer to the financial transaction undertaken for the provision of goods and services for the collection of GST.

In terms of implementation timing for the Vendor Registration model, Australia Post notes it will be able to comply with the requirements set out in the Amending Bill from 1 July 2018.

4. The International Mail Environment

4.1 Electronic Advance Data

Significant changes have occurred in the international mail channel since 2012, driven by the boom in eCommerce and growth in the number of low value articles being moved through the international mail stream. As eCommerce has boomed, the mail distribution profile has changed from business-to-business distribution to business-to-consumer and consumer-to-consumer. The international mail channel has seen a decline in letters volumes but an increase in small packet volumes since 2012.

To address the change in profile and volume growth in small packets, Australia Post has invested heavily in the Sydney Gateway Facility through its Future Network program to increase the footprint by over 4000m², and has also invested in small parcel automation with the installation of a multi-product sorter. Notwithstanding this investment, underlying border clearance processes are undertaken the same way as when cost modelling was undertaken for the LVPPT.

The use of Electronic Advanced Data (EAD) for international postal articles to impact clearance or routing is not a process that Australia Post or Australian border agencies are currently set up for, or able to implement, at this time.

Robust processes and procedures that meet national and international requirements need to be established. The quality of data being sent by the few countries able to send EAD is currently highly variable, and cannot be consistently relied on to make robust decisions on a global importing basis.

There is no field within any international EAD format that provides for the amount of GST already paid (even in countries able to send EAD of high quality), making EAD invalid for the purposes of determining whether Australian taxes have already been paid, thus relying on a costly and fully manual process.

While the EAD work stream is an integral part of work that the Universal Postal Union (UPU) is currently focussed on expediting, the work is in its infancy and the realisation of effective EAD is a progressive goal stretching over several years. Further investment is still required to progress the work, particularly around streamlining border clearance processes. Australia is currently at a trial stage with only some close international partners.

Whilst EAD is intended to be implemented by all designated postal operators over the next several years, Australia Post and other postal operators are still yet to agree on a new platform to handle data exchanges using the Customs Declaration System provided by the UPU.

4.2 The Universal Postal Union

Australia Post is the designated postal operator for Australia to the UPU, which comprises 192 member countries, including Australia. Australia Post efficiently carries out Australia's UPU treaty obligations, facilitates eCommerce, and contributes to border clearance activities by presenting mail to border agencies. In accordance with the UPU treaty and Australian legislative requirements, Australia Post provides postal services both within Australia, and internationally.

The UPU fully supports, and is driving, postal operators to collect and share item level data (also known as EAD) and is collaborative with the World Customs Organization (WCO) in this regard. The UPU is currently working on modernising its product portfolio. This key piece of work, named the Integrated Product Plan (IPP), will align products to customer and market needs and will be integral to the work on EAD.

In 2016, UPU member countries endorsed a roadmap for EAD implementation. This roadmap is a key work program in the UPU cycle, and one in which Australia is heavily engaged.

Requirements for EAD to be provided by all postal operators in the future are based on the CN23 Customs Declaration form. A copy of the CN23 is provided below. Any changes to the CN23 form would need to be considered and endorsed by UPU member countries and would also require consultation and approval from the WCO. Such tasks can take a number of years, with each UPU member country, including Australia having only one vote in the final decision.

(Designated operator)		CUSTOMS DECLARATION				CN 23
From	Name	Sender's customs reference (if any)		No. of item (barcode, if any)		Important! See instructions on the back
	Business					
	Street	Tel. No.				
	Postcode	City				
	Country					
To	Name	Importer/addressee reference (if any) (tax code/WRT No./importer code (optional))				
	Business					
	Street	Tel. No.				
	Postcode	City				
	Country			Importer/addressee fax/e-mail (if known)		
Detailed description of contents (1)		Quantity (2)	Net weight (in kg) (3)	Value (5)	For commercial items only HS tariff number (7) Country of origin of goods (8)	
			Total gross weight (4)	Total value (6)	Postal charges/Fees (9)	
Category of item (10)	<input type="checkbox"/> Commercial sample <input type="checkbox"/> Other (please specify):	Explanation:		Office of origin/Date of posting		
<input type="checkbox"/> Gift	<input type="checkbox"/> Returned goods					
<input type="checkbox"/> Documents	<input type="checkbox"/> Sale of goods					
Comments (11): (e.g. goods subject to quarantine, sanitary/phytosanitary inspection or other restrictions)						
I certify that the particulars given in this customs declaration are correct and that this item does not contain any dangerous article or articles prohibited by legislation or by postal or customs regulations						
<input type="checkbox"/> License (12) No(s) of licenses	<input type="checkbox"/> Certificate (13) No(s) of certificates	<input type="checkbox"/> Invoice (14) No. of invoice		Date and sender's signature (15)		

Size 210 x 148 mm

4.3 Data Sharing Agreements

At present, in order to transmit and receive electronic item-level information, Australia Post requires an overseas postal operator to sign a bilateral or multilateral data sharing agreement that sets out the appropriate data formats to be used, and that also ensures that any data exchanged is stored and used in accordance with privacy and regulatory requirements.

Australia Post has executed a number of bilateral agreements, as well as the International Post Corporation and Kahala Post Group data sharing agreement – a multilateral data sharing agreement with 23 other countries. In total, Australia Post has data sharing arrangements in place with 33 countries.

4.4 Information transmission

Multiple electronic data formats exist in various versions, as countries are progressively developing capacity to transmit the latest standard.

The key data formats used by Australia Post are EMS EVT v3 and ITMATT. EMS EVT v3 contains predominantly tracking and processing information and is the most prevalently used format at present. It does not fully replicate customs forms. ITMATT contains the electronic equivalent of data that is currently provided by senders on the CN23 form (which is applied to mail items, and referred to earlier in this submission) however is only exchanged with 15 countries, and only for select classes of mail items. It is important to note that the CN23 form does not describe the amount of GST paid (or not) to Australia, and does not have capacity to do this.

Item level data can only be transmitted for items that are barcoded according to the UPU's S10 barcoding standard. At present there is no mandatory requirement for UPU member countries to apply an S10 barcode to mail items.

While from 1 January 2018 all UPU member countries will be required to attach an S10 barcode identifier to mail items containing goods, the presence of the barcode does not mean that data exchange will automatically follow. Most postal operators do not have capacity to electronically capture data for all classes of parcels, and the associated data exchange is not yet mandatory. Furthermore, there are no penalties that can be imposed for non-compliance with S10 barcode labelling, and Australia is aware that many of its key trading partners will not be S10 barcode ready from 1 January 2018.

The UPU is currently undertaking a phase of work that will require EAD to be included with every S10 barcode, however early indications are that this will not occur universally before 2023.

4.5 Data Quality

At present, data transmission is not provided for all mail classes, as data requirements are dependent upon the agreement reached with the particular postal operator and the products and services that are provided.

The technology and system requirements for use of the Customs Declaration System to interface EAD are currently being examined under the tripartite arrangements between Australia Post, the Department of Immigration and Border Protection and the Department of Agriculture and Water Resources.

The new technology is unlikely to be available for 1 July 2018.

5 Consideration of other Models

5.1 Vendor Registration Model

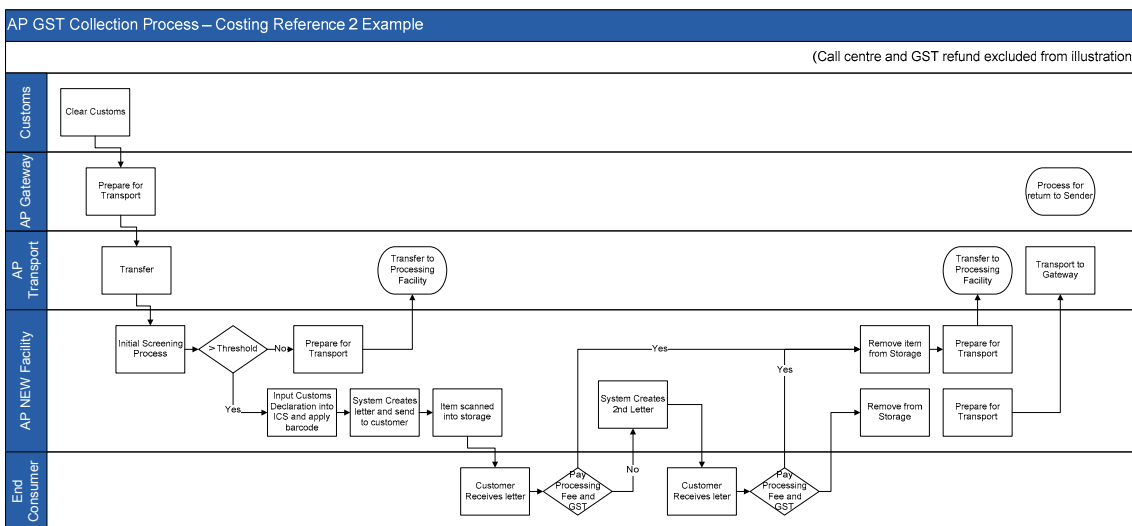
Australia Post has reviewed the cost impacts of complying with the requirements set out in the Amendment Bill and considers there will be minimal costs it will need to incur in meeting the requirements for 1 July 2018. Costs it will incur will primarily relate to communications and training.

Further work is being undertaken to assess the cost impacts of providing an interface to support EAD for border clearance purposes.

5.2 Border & Transporter Collection Models

The two costing model scenarios provided to the Senate Economics Legislation Committee inquiry into the provisions of the Amending Bill are set out below:

Scenario 1 - Assessment based upon all items to be physically assessed, nil electronic data and letters exempted.



The modelling provided an assessment of the costs to be borne by Australia Post under a scenario where all items coming through the postal channel would be required to be assessed for GST with a zero threshold.

The costing base for the Border Collection model and the Transporter model in effect are the same costs for Australia Post due to the significant additional resourcing, administration, new infrastructure and technology systems required to support those models. Costs would include:

- additional staffing at a cost of up to \$560 million in new employment costs and training costs for staff and customer education campaign;
- administering, enforcing and complying with this responsibility would require a \$160m in new costs;

- approximately \$120m in costs associated with the likely high rates of abandonment and non-payment, especially for very low value goods. Processes for managing abandoned goods are cumbersome under customs legislation, as recipients are required to be notified to enable 30 days for collection, and Australia Post as it is required to return the abandoned goods to the sender; and
- additional infrastructure costs for increasing warehouse capacity, purchasing equipment and storage for item assessment; creation of new IT systems, and depreciation of approximately \$50 million.

These costs – totalling almost \$900 million – would significantly exceed the approximately \$300 million of GST revenue likely to be collected, making both the Border Collection model and the Transporter model unviable as a collection model.

Scenario 2 - Assessment based upon all items to be physically assessed, current electronic data and letters exempted.

Changes are required for the electronic interface between border agencies and Australia Post for EAD to be enabled. While a cost reduction on the variable labour costs would occur, our modelling suggests that 70% of costs would still be incurred.

Cost Recovery Impacts

Cost recovery impacts associated with both the Border Collection model and the Transporter model that need to be considered are:

- the shifting of responsibility of revenue collection for international mail from the Department of Immigration and Border Protections to Australia Post; and
- that cost recovery funding would need to be provided, likely in the form of:
 - a direct subsidy from the Government; or
 - recovery of costs directly from the mail recipient, with a handling fee to be charged by Australia Post. (Note that, if costs were passed on to mail recipients, charges would likely be disproportionately high in comparison to the value of the goods, as most of the goods are likely to be less than \$100).

Ineffective cost recovery would, of course, have a significant impact on the profitability of Australia Post.

5.3 Amazon Hybrid - “Modern Transporter Model”

The hybrid model proposed by Amazon at the Productivity Commission’s public hearings on 24 August 2017 recommends that GST be collected at the border for both mail and cargo by Australia Post and freight providers utilising electronic data.

Australia Post doesn’t support the Amazon Hybrid model as it fails to recognise the existing relation between the overseas vendor or offshore marketplace provider and the acquirer of the goods subject to the importation and fails to leverage fully the existing payment systems which should be able to be modified to accommodate the collection of the GST.

Such a model was already considered as part of the LVPPT investigation, to improve border clearance for large volume suppliers to expedite customs clearance into a green lane/red lane model, as follows:

- Green Lane – data provided for expedited border clearance meeting data quality requirements; and
- Red Lane – data not provided and run through existing border clearance processes.

The focus for the Green Lane was to target high volume customers who would be in a position to provide this information electronically. It is Australia Post's view that the same high volume customers should be best placed to integrate GST collection and remittance processes into the purchase transaction thereby completely removing all collection requirements from the importation process.

The proposed 4-year phased implementation approach for mail was based on the premise that the UPU's Integrated Product Plan is mandatory and would be implemented on 1 January 2018.

In consideration of the hybrid model proposed by Amazon, Australia Post notes that:

- the changes agreed at the UPU Congress in 2016 for implementation from 1 January 2018 will require all mail items containing goods to apply an S10 barcode identifier. It is noted, however, that there is no requirement to exchange any EAD at this time. Further, there are no penalties for postal operators who do not barcode or transmit EAD;
- the UPU is currently progressing work on the EAD roadmap. Whilst this work will take some time, the objective is to agree a data exchange model that will apply to all postal operators in the future. Currently timeframes for implementation of EAD on all mail items is scheduled for 2023;
- data quality standards are yet to be agreed by the UPU. This work is being undertaken as part of the EAD roadmap;
- given that the work in the UPU will take some time, there is a heavy reliance on Australia Post to negotiate multilateral arrangements with other postal operators to provide EAD within the timeframe proposed;
- the Customs Declaration System required to exchange data between border agencies and Australia Post is currently in the "idea" phase – it has not been implemented. It is not yet certain whether existing software will be able to accommodate Australia's dual border control agencies – the Department of Immigration and Border Protection and the Department of Agriculture and Water Resources.
- the burden of evidence would be on Australia Post or the freight provider to provide this information to the Australian Tax Office. Non-compliant items would need to be held or returned.

Costs of implementing the hybrid model proposed by Amazon would, in Australia Post's view, reflect the same cost assumptions as those outlined above in Scenario 2 for the Border & Transporter models and would, in Australia Post's view, be untenable.

6 Conclusion

Australia Post will – under the vendor registration model in the Amending Bill – be able to implement changes required to comply with the model from the implementation date of 1 July 2018 with minimal costs, meaning that GST returns can be immediately realised.

The vendor registration model provides a way forward to address the current gap and level the playing field for importers and suppliers through either freight or mail channels without creating undue burden for small businesses or consumers in Australia through additional handling charges.

The costs of implementation and delivery for either the border collection or transporter model exceed the revenue that would be collected by Australia Post, rendering both models unviable. Implementation of either of those models would result in increased costs on existing mail streams, translating to a significant impact on the overall profitability of the organisation and, in turn, on the declaration of dividends to its shareholder, the Commonwealth.

While improvements in EAD transmission are a priority for the UPU, EAD implementation is still in an early stage and requires significant further work to be undertaken before it is able to be used in Australia for tax collection purposes. Using EAD between border agencies and Australia Post for any form of universal purpose is not feasible for implementation on 1 July 2018 or in the immediately foreseeable future.

Work in the UPU of the EAD roadmap is progressing, but determining a system and implementation date that is viable and agreeable to all 192 member countries will take some time.