



**eBay Canada**

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

**Pre-Budget Consultations in advance of the 2018 Federal Budget**

*Summary: To help both Canadian consumers and Canada's small and medium businesses (SMBs) contribute to the country's economic growth, eBay Canada proposes that the Standing Committee on Finance recommend that the Government of Canada increase the Canadian de minimis threshold from its current rate of \$20.*



## Connecting Consumers and Small Business to the World

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 \$1.5 billion on eBay annually. Canadians use eBay to access a global marketplace with more than one billion items available.

eBay is the preeminent platform for businesses of all sizes to join the online economy, and primary sales channel for many entrepreneurs. Canada-based users sell over one million items every month.

## De Minimis

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 the threshold of \$20, a rate initially set in the 1980s, nearly a decade before the emergence of electronic commerce platforms on the Internet. eBay Canada proposes that the Standing Committee on Finance recommend that the Government of Canada increase the Canadian de minimis threshold from its current rate of \$20 to reduce onerous paperwork for small business owners and improve the flow of goods across the border.

## Analysis

Canada's de minimis is the lowest in the industrialized world and among the lowest globally, ranking alongside Uganda and Jordan.

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>1</sup> However, there are numerous other benefits to consumers, small businesses and government associated with raising the de minimis threshold.

## Cost and Benefits

A recent report reviews the costs and benefits of various de minimis increase scenarios, which demonstrate significant benefits to consumers and businesses – particularly SMBs - while also being fiscally neutral or positive to government.<sup>2</sup> 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." Specific benefits of increasing the de minimis include:

---

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

<sup>2</sup>[https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed/E-brief\\_Rights%20of%20Passage\\_June16.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/E-brief_Rights%20of%20Passage_June16.pdf)



## **(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 the World Customs Journal has estimated that the cost incurred by the Government of Canada to process and collect duty on low value packages (LVPs) in Canada exceeds the amount of duty collected.<sup>3</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 LVPs far outweighs the revenue payable to the government.

Unfortunately, neither consumers nor business can predict when the threshold will be applied, creating uncertainty and costs for businesses. 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 Institute's report shows government spent \$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 \$80, government could either recognize \$127 million in savings or invest it in consistent collection of duties and taxes on higher-valued goods to bring in revenues of \$34 million. 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.

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

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

While small e-commerce businesses can reclaim taxes paid on business inputs and amounts assessed on returns, this drives significant administrative costs: often, costs associated with reclaiming these duties or taxes exceed the amount paid. eBay Canada has surveyed a variety of its sellers on this topic

---

<sup>3</sup>[http://worldcustomsjournal.org/Archives/Volume%206%2C%20Number%201%20\(Mar%202012\)/04%20Holloway\\_Rae.pdf](http://worldcustomsjournal.org/Archives/Volume%206%2C%20Number%201%20(Mar%202012)/04%20Holloway_Rae.pdf)



and has found that the 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>4</sup> Unsurprisingly, SMBs view customs delays as the most significant trade barrier.<sup>5</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, SMBs do not have this option.

The C.D. Howe Institute's study found that an increase in the de minimis from \$20 to \$80 would benefit Canadian businesses by more than \$100 million, an amount driven largely by savings on brokerage fees and administration costs, as well as faster clearance of goods across the border.

Analysis of Canadian SMBs on eBay shows that nearly all export (99.8%) and reach an astounding average of 20 markets each.<sup>6</sup> These thousands of SMBs are testament to the tremendous power of Internet-enabled trade, but they are also evidence of the need for Canadian border policies – particularly the de minimis threshold – to be better aligned with international standards.

### **(3) Consumer fairness**

Government increased the value of goods that could be imported duty- and tax-free by Canadian residents returning from abroad in Budget 2012: \$200 for an absence of 24 hours; and \$800 for an absence of 48 hours.<sup>7</sup> However, there was no increase for inbound parcel shipments.

The lack of a corresponding increase to the de minimis threshold puts remote communities, Northern Canadians and low-income families at a disadvantage. These groups are unable to regularly travel across the border and benefit from 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, most Canadians reside more than 81 miles away."*<sup>8</sup>

Local stores in northern and remote communities often offer a smaller range of products, thus amplifying the value of e-commerce in rural areas. By increasing the threshold (aligning it with the

---

<sup>4</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>5</sup>[https://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals\\_Global-Consumers\\_WTO\\_Report\\_1.pdf](https://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals_Global-Consumers_WTO_Report_1.pdf)

<sup>6</sup><http://www.newswire.ca/news-releases/optimism-among-canadian-smb-exporters-despite-economic-challenges-567491761.html>

<sup>7</sup><http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>

<sup>8</sup>[http://strategy.sauder.ubc.ca/head/papers/crossings\\_final.pdf](http://strategy.sauder.ubc.ca/head/papers/crossings_final.pdf)



personal exemption for 24-hour trips abroad), all Canadians, regardless of where they live or how much they make, would benefit from existing duty limits.

Increasing the de minimis threshold could have a broader range of benefits by leading to long-term price reductions for all consumers. A 2014 C.D. Howe Institute report noted the an increased de minimis threshold would be ideal for addressing 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>9</sup>

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

eBay’s recent Commerce 3.0 study found that many small businesses who export using technology platforms utilise public logistics providers such as Canada Post almost exclusively.<sup>10</sup> However, each year Canadian consumers ship millions of packages to US addresses (mostly border towns) to avoid the costly duty and taxes. This diversion of ecommerce packages represents a significant loss of revenue to Canada Post. As such, an increase to Canada’s de minimis would lead to greater cross border package and parcel shipments for Canada Post, resulting in increased revenue.

### **Broad Support**

Several 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<sup>11</sup> and to then-Minister of Industry James Moore<sup>12</sup>, call attention to the broad range of groups who support a change. Most recently, a group of 12 Canadian SMB owners sent an open letter to Prime Minister Justin Trudeau, insisting 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.”<sup>13</sup>

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 SMBs while yielding cost savings for government, consumers and businesses.

US de minimis recently increased from \$200 USD to \$800 USD, and 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.”<sup>14</sup>

---

<sup>9</sup>[https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed/Commentary\\_409.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_409.pdf)

<sup>10</sup><https://www.ebaymainstreet.com/sites/default/files/canada-commerce-3.pdf>

<sup>11</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>12</sup>[http://www.manufacturingourfuture.ca/\\_uploads/media/4ykr83kv4.pdf](http://www.manufacturingourfuture.ca/_uploads/media/4ykr83kv4.pdf)

<sup>13</sup><http://www.ebaymainstreet.com/canada-letter>

<sup>14</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)



Several major international organizations have also called for increases to de minimis thresholds globally. In 2011, the Asian Pacific Economic Cooperation released a joint statement, 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>15</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>16</sup>

In 2016, Nanos Research conducted a survey on behalf of the Canadian American Business Council<sup>17</sup> regarding Canadians’ views on Canada’s de minimis level. The petition to “dump the duties” was presented in the House of Commons, which received 15,257 signatures, called on the federal government to increase Canada’s de minimis. The results of the survey found that 76% of Canadians support raising the duty-free limit to \$200 CAD. This petition had the seventh most respondents when compared to all official House of Commons e-petitions to date.

### **NAFTA Context**

Delivering on the campaign promise to renegotiate the North American Free Trade Agreement (NAFTA), the Trump administration recently published its list of goals<sup>18</sup> for the Agreement’s scheduled renegotiation. An area that the Administration will be prioritizing appears to be breaking down barriers to American exports and aligning the Agreement with 21<sup>st</sup> century standards for conducting trade.

Specifically, the White House is calling on Canada and Mexico to “provide for a de minimis shipment value comparable to the U.S. de minimis shipment value of \$800.”

What the new trade deal will look like remains to be seen, but the signal from our closest ally and largest trading partner seems to suggest a strong political will to raise Canada’s de minimis threshold.

### **Conclusion**

As a global marketplace powered by technology-enabled small business, eBay advocates for policies that make it easier for SMBs to get online, access new markets, scale their exports and reach their full potential. Increasing Canada’s de minimis threshold from its current rate of \$20 would not only yield significant benefits for government, business and consumers, it would align Canada with the online economies of other industrialized countries, all while having a net positive effect on the treasury. While we closely monitor the developments of the NAFTA renegotiation, we also welcome the opportunity to appear before the Committee to discuss this proposal in more detail.

---

<sup>15</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>16</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)/)

<sup>17</sup><http://www.newswire.ca/news-releases/poll-76-of-canadians-want-to-raise-canadas-de-minimis-level-to-200-598206581.html>

<sup>18</sup><https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf>