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DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
COMMITTEE ON CONSUMER POLICY

**A GLOBAL MARKETPLACE FOR CONSUMERS: SIMPLIFYING CUSTOMS
CLEARANCE PROCEDURES**

**PROCEEDINGS OF AN INTERNATIONAL ROUNDTABLE HELD AT THE OECD
ON 9 SEPTEMBER 1997**

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FOREWORD

This document is a summary of the proceedings from the Roundtable “A Global Marketplace for Consumers: Simplifying Customs Clearance Procedures.” This Roundtable, held on 9 September 1997, was organised by the OECD Committee on Consumer Policy, in co-operation with the OECD Committee on Fiscal Affairs and the World Customs Organisation. This document is made generally available under the responsibility of the Secretary-General of the OECD.

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Preface

While direct business-to-consumer cross-border transactions and electronic commerce account for only a fraction of the current global economy, they can offer consumers substantial benefits, including convenience and access to a wide range of goods and services. In 1994, the OECD Committee on Consumer Policy sponsored a conference entitled "A Global Marketplace for Consumers" which provided a broad overview of the various issues that affect consumers in the international marketplace. Since that time, the Committee has convened government, business and consumer representatives for a series of Roundtable discussions intended to further explore specific issues.

One barrier to the growth of electronic commerce and increased consumer participation in the global marketplace, is the cost and delay associated with the delivery of physical goods. While ordering goods by telephone or over the Internet is convenient and fast, in many cases the costs and delays associated with the delivery of the order can negate the benefits of the transaction. In October 1996, during a Roundtable discussion of International Parcel Delivery issues, a number of participants identified Customs clearance procedures as adding considerably to this problem. In addition to the basic transportation and service charges required to move goods from the seller's warehouse to the consumer's doorstep, charges related to duties and taxes are assessed on some products and administrative customs procedures can add costs and delay delivery.

To follow-up on those concerns, the Committee on Consumer Policy, in collaboration with the OECD Committee on Fiscal Affairs, and the World Customs Organization (WCO), organised this Roundtable discussion in an effort to examine the impact of existing Customs procedures on international parcel delivery. Representatives from Customs administrations, public post offices, private parcel delivery services, consumer organisations, and mail order firms gathered to discuss practical solutions to help alleviate the burdens caused by Customs procedures without undermining the safety, enforcement and revenue collection responsibilities of national Customs authorities.

The Roundtable provided participants with an introduction to several practical models being used in OECD Member countries to help streamline and simplify Customs procedures. The success of these model programmes has shown that efforts to implement *de minimis* levels that allow lower value parcels to freely cross international borders and the increased use of computer-based technologies to track and clear parcels, can significantly reduce the cost and time delay that Customs procedures add to many cross-border shipments. In addition to the savings these changes provide to businesses and consumers, Customs administrations can also benefit from cost and time savings, enabling them to re-direct resources into high-priority areas such as controlling the import and export of restricted and prohibited goods.

Efficient and effective Customs clearance procedures are important to the development and growth of the global marketplace and electronic commerce. International co-operation among Customs administrations, postal authorities and businesses is essential to streamline procedures and develop "best practices" for Customs procedures in an effort to improve the quality of service and provide cost and time savings for everyone involved.

Roundtable Programme - 9 September 1997

Morning Session:

Education and Information

INTRODUCTION AND OPENING ADDRESSES

Ms. Joanna Shelton, Deputy Secretary-General, OECD

Ms. Patricia McCauley, Deputy Director for Procedures and Facilitation, WCO

OVERVIEW OF THE ISSUES

Responsibilities of Customs authorities: Customs authorities are responsible for both collecting duties and taxes and for screening parcels to detect restricted and/or prohibited goods. International Customs officials provided an overview of the typical procedures used to clear parcels through Customs, particularly through the international mail order shipments.

Panellists:

Ms. Patricia McCauley, Deputy Director for Procedures and Facilitation, WCO

Mr. Mike Parsons, Team Leader, International Negotiations Team, H.M. Customs and Excise, United Kingdom

Mr. Robert E. Mall, United States Customs Attaché, Belgium

Mr. Hirotaka Mizutani, First Secretary, Embassy of Japan, Belgium

Handling of a typical consumer's package: Once a consumer has placed an order through a catalogue or using the World Wide Web, what does it take for the package to reach its final destination? Panellists described the parcel delivery process detailing, in particular, the documents necessary to transport, count and track consumer packages, and the procedures for the collection of taxes and duties for both original delivery and in the case of returns.

Panellists:

Mr. Jean-Claude Fournier, Chief of Parcel Division, International Mail Directorate, La Poste, France

Mr. Phil Hughes, Vice President Customshouse, United Parcel Service Airline, United States

The consumers' story: What problems do consumers face with respect to the shipping and handling of the goods they purchase? How might the Customs clearance process be revised to help meet consumer needs and allow them to more easily participate in the global marketplace without jeopardising the protection of cross-border safeguards? An international consumer representative presented an overview of what governments and businesses might do to help ease the burden placed on consumers by reducing the costs of the delivery and, in some cases, the return of goods and helping consumers to fully benefit from the global marketplace.

Ms. Lucy Harris, Policy and Representation Officer, Consumers International, London

Afternoon Session:

International Mail Order Arrangements: Current Models and Proposals

Alternative systems for Customs clearance: A number of working models have been put into place that provide progressive options for the clearance of international parcels. These systems offer a variety of package handling, tracking, and duty and tax collection alternatives that can potentially benefit both businesses and consumers in the expanding global marketplace.

The efficiencies and reduced compliance costs produced by these systems could translate into savings for businesses that could, in turn, be passed along to consumers. System streamlining can also provide resource savings that Customs authorities could then re-target to other high priority areas. In addition, the simplification of current Customs clearance procedures – especially when linked to the growth of business-to-consumer electronic commerce – could help to facilitate global economic growth. The Roundtable discussion of the various international models included the perspectives of all the actors involved: sellers, public and private carriers, Customs officials, tax officials, and consumers.

Canadian low value shipment system

Mr. Fred Light, Director, Legislative Projects, Strategic Programs Directorate, Revenue Canada

Mr. Amin Mitha, Managing Director of Global Trade Services, Federal Express Corporation, Canada

Ms. Laurel A. Milos, Director, International Business Development, L.L. Bean, Inc., United States

Mr. Louis Saint-Arnaud, Customs Brokers Association of Canada (CBAC)

Modernisation Procedures in New Zealand Customs

Mr. Mervin Kemp, First Secretary, New Zealand Customs

European Community: Single Market Transitional System

Ms. Maryse Volvert, European Commission, DG XXI/C1

Mr. Jeroen Pit, European Tax Manager, DELL Europe

General discussion and suggestions for action

Moderator:

Ms. Maureen Kidd, Counsellor (Revenue), Customs Excise and Taxation, Canadian Mission to the European Union

Rapporteur:

Ms. Rachel Larabie-Lesieur, Deputy Director of Investigations and Research, Marketing Practices Branch, Competition Bureau, Industry Canada

Welcome Address – Ms. Joanna R. Shelton

Deputy Secretary-General, OECD

Chairman Oelgaard, Deputy Director McCauley and distinguished guests it is my pleasure to welcome you here today to this important gathering. This Roundtable has been organised by the OECD's Committee on Consumer Policy in close co-operation with the Committee for Fiscal Affairs and the World Customs Organisation, whose assistance we greatly appreciate.

Major advances in communications and information technologies have made it increasingly easy for consumers to obtain goods and services from sellers based in other countries and on other continents. In very recent times, we have experienced an even greater revolution -- that of Internet-based electronic commerce. This latest revolution is rapidly gaining momentum, albeit at differing rates in different countries. Using the Internet from the comfort of their own homes, consumers can gain access to a plethora of goods and services almost instantaneously -- easily overcoming the constraints of time and distance.

But as easy as the Internet appears to have made these transactions, the vision of a borderless world of commerce will not become a reality until a number of very practical problems have been addressed.

One of those problems, which the Committee on Consumer Policy has been examining, relates to the high cost of international parcel delivery. International rates are several times higher than rates for domestic delivery over comparable distances; and such high delivery costs can stunt the growth of the global marketplace. Our work so far has suggested that Customs clearance procedures are a major factor in these high international delivery rates. Exploring the nature of these costs and possible ways to lower them is one of the principal reasons behind this Roundtable discussion.

But there are other reasons for today's meeting as well. International parcel carriers and national Customs authorities are experiencing an increase in the volume of imported small packages, potentially straining their limited resources. Because we believe this volume will continue to grow, the ability of Customs authorities to perform other vital parts of their mission also may grow more difficult.

Thus, we should endeavour to find ways to streamline the clearance of low value parcels, particularly those coming from established, reputable merchants. These efforts can help to reduce delivery costs and time; reduce the resources required by Customs authorities to handle such parcels; and permit Customs authorities to devote those newly freed-up resources to other high priority tasks.

Today we will hear about methods that have been developed to alleviate the costs and delays in cross-border mail order deliveries. For example, the use of guarantee bonds to safeguard revenue and complementary screening procedures for prohibited and restricted goods are some of the features already being used in partnership agreements between the private and public sectors. These and other examples will assist our discussions today and may suggest ways in which these sorts of partnership agreements could be expanded to an international level.

The work of this Roundtable is important in its own right, but it also fits into a larger scheme: and that is the OECD's effort to identify the challenges posed by electronic commerce and to develop a strategy to meet these challenges.

US, Japanese and European white papers on this issue have generally encouraged governments to develop and enforce a predictable, consistent, and minimalist legal environment for electronic commerce, recommending that this be accomplished through a co-ordinated strategy involving all interested parties.

The OECD maintains strong links among governments and the private sector. We believe that the OECD's multidisciplinary structure offers a valuable forum to analyse the full range of policy issues in electronic commerce and to facilitate co-ordination among governments and other international bodies. In order to meet the substantial policy and logistical challenges that lie before us, governments and businesses need to work together. Only in this way can we create the conditions necessary to make the global marketplace a reality for consumers. Hopefully, this Roundtable will make an important contribution toward the simplification of Customs procedures for international parcel delivery taking us one step closer to make the vision of a borderless world a reality.

Keynote Address - Ms. Patricia McCauley

Deputy Director for Procedures and Facilitation, WCO

Madame Chairman, Ms. Shelton, Ladies and Gentlemen, it gives me great pleasure to address you today on behalf of the World Customs Organization (WCO) at this Roundtable on simplifying Customs procedures for consumers. As part of the OECD's ongoing examination of how to facilitate international parcel delivery, this session is not only appropriate and important, but also very timely within the larger context of global efforts to simplify and facilitate international trade. Retail suppliers, manufacturers, transporters, service providers, governments and international organisations such as the World Trade Organization (WTO) and the WCO are all working to eliminate barriers, reduce costs and speed up delivery of goods. I look forward to the discussions today and to learn how the WCO can work more effectively with all the parties directly affected by Customs controls and regulations.

For those of you who may be unfamiliar with the World Customs Organization, I would like to give you a little background. The WCO is an independent inter-governmental organisation with 145 Customs administrations as Members. The WCO was founded in 1952 and its objective is to improve the efficiency and effectiveness of Customs administrations worldwide, particularly in the areas of compliance with trade regulations, protection of society and revenue collection. You may know that we are responsible for the management of the Harmonised System of Nomenclature and Classification and for the administration of the World Trade Organization Valuation System. On behalf of the WTO, we are seeking to devise common rules of origin for non-preferential trade.

A major part of our mission is to encourage the adoption of modern, harmonised and simplified Customs procedures and to promote co-operation between Customs administrations in the area of compliance. One of our priorities is the Customs Reform and Modernisation Programme which assists developing countries and countries in transition from centrally controlled economies to introduce modern Customs procedures and systems with a proper regard to the needs of legitimate trade. We also work closely with representatives of commercial organisations, such as the International Chamber of Commerce, the International Express Carriers Conference and other transport organisations, as well as with other inter-governmental organisations such as the Universal Postal Union, the United Nations Committee for Trade and Development (UNCTAD) and the United Nations Economic Commission for Europe (UNECE). We are a relatively small organisation with less than 130 staff, but our impact is considerable and we act as a catalyst for significant change impacting on the Customs administrations of the world.

As Ms. Shelton mentioned, in addition to its traditional role of revenue collection, Customs has well-established and important obligations to protect the health and safety of society from dangerous goods, trademark and copyright infringements, illicit drugs, and other commodities deemed important by a country's national legislation. It is a fact that cross-border crime is increasing and that the post and parcels are used for the delivery of illegal and harmful goods. The opening of global market access to trade has also been capitalised upon by criminal organisations. Customs controls are therefore an important measure in assuring that cross-border trade does not endanger or harm the citizens of the nation or Customs territory. That being said however, for Customs, fulfilling these obligations today does not run contrary to providing simplification and facilitation of legitimate consignments that meet all national trade requirements.

One of the principal ways the WCO promotes harmonisation and co-operation between Customs administrations is through the Kyoto Convention. This is officially entitled the “International Convention on the Simplification and Harmonisation of Customs Procedures”, and I will explain how appropriate this instrument is to the goals of today’s session examining ways to benefit international parcel delivery. The Kyoto Convention lays out an extensive set of simplified procedures and best practice recommendations for all aspects related to the importation and exportation of goods in international trade. It was originally developed in 1973 and is one of the principal Conventions of the WCO.

The WCO is completing a full review and revision of the Kyoto Convention. Our priority is to modernise and further simplify Customs procedures, and to develop “Guidelines” to assist Customs administrations in implementing those procedures. Our ability to take full advantage of the use of information technologies was still some way off in 1973, however now it is being fully integrated into the system. Similarly, the addition of modern techniques such as risk management, audit-based controls, and mutual administrative assistance between Customs administrations and with external organisations all appear prominently as cornerstones that will permit Customs to facilitate the international movement of goods while ensuring full compliance with national laws. I would urge all OECD Members and organisations with an interest in international trade to become actively involved in the revision of the Kyoto Convention. It will be the WCO’s formal model for Customs procedures for the 21st Century, and it is vital that it fully reflects the current and future needs of all those involved in international trade.

The existing Kyoto Convention has 31 Annexes each of which cover specific Customs procedures. These include an Annex dealing with postal traffic and another dealing with urgent consignments. The revised Kyoto Convention will contain Annexes and Chapters that deal with general provisions applicable to all Customs procedures and others that deal with specific procedures. In the current Convention, none of the provisions have any binding force on Contracting Parties. One of the key differences in the revised Convention is that Contracting Parties will be obliged to accept and apply all the general provisions, and for the specific procedures which they accept, they will be obliged to apply all the standard provisions contained in those procedures.

Many of you may be aware of the First Ministerial meeting of the World Trade Organization (WTO) which took place in Singapore in December 1996. The Declaration issued at the end of the meeting included a direction to the WTO Secretariat to consider the need for WTO rules in the area of trade procedures to maximise trade facilitation. As you know, Customs procedures are a significant element of international trade procedures, and we hope to be able to convince the WTO and its Members that the revised Kyoto Convention is all that is required in the Customs procedures area, and that the WTO should support the adoption of the revised Convention by all WTO members.

In addition to updating this important instrument, the WCO’s close and regular collaboration with the Universal Postal Union (UPU), the International Express Carriers Conference (IECC) and the International Chamber of Commerce (ICC) are indicative of the co-operative measures we undertake to facilitate the Customs part of international trade procedures.

Thanks to the interest and collaboration of private express operators, airlines and postal operators, the WCO has produced a set of Guidelines on the Customs clearance of express consignments. They are based on the principle that consignments should be categorised prior to arrival in the destination country to ensure that those of little or no interest to Customs receive very little attention from Customs and are cleared extremely quickly. In addition, when the required information is furnished to Customs prior to the arrival of these goods, a large majority of the consignments are cleared almost immediately upon arrival. The Express Guidelines are significant because the Customs administrations operating them are required to use the up-to-date methods of risk management and selectivity that concentrate Customs

resources on the small percentage of traffic that may be in breach of legal requirements. You will no doubt appreciate that this has major implications for the flow of parcel traffic. These Guidelines cover not only express and courier traffic, but also any consignment that meets the criteria and it is certain that they will play an integral role in the revised Kyoto Convention. In recent years, the WCO and the IECC have been jointly promoting these Guidelines, particularly in Asia where express operations are growing rapidly and affect global manufacturing operations.

How do the Kyoto Convention and our other international co-operative efforts converge to help the average consumer who buys goods via catalogue shopping, television advertising or over the Internet? First, there is no doubt that the philosophy of facilitation, service and predictability for customers that underlies the modern techniques designed by the private operators can equally apply to Customs administrations and other government institutions. This philosophy has already been adopted by the Customs administrations represented at this Roundtable as well as by many postal administrations.

From the WCO's perspective, we believe that acceptance of the revised Kyoto Convention by WCO and OECD Members will supply the legal basis, if one is not already available, for a Customs administration to implement the mechanisms for simplification and facilitation. A number of principles and provisions in the Convention pave the road that an international package travels once a consumer has placed an order. The revised Convention will affect everything along the line, from the supplier sending the parcel and the transporter delivering it, to the Customs administrations being paid the proper duties and taxes. (See attached Annex *Excerpts from the Revised International Convention on the Simplification and Harmonisation of Customs Procedures (Kyoto Convention)*).

All of these principles are already incorporated to some degree in the Customs programmes that will be discussed in this Roundtable. These principles, as well as many others now incorporated into the revised Convention, have special significance with respect to reducing the cost of Customs clearance and expediting the clearance process. Most OECD Customs administrations now use automated systems and electronic commerce to accept import or export data from the shipper or transporter, to assess the level of Customs risk, and to calculate and even collect duties and taxes. In addition, many offer importers the advantages of periodic or monthly payment schemes. These practices are a tremendous benefit in reducing Customs administrative costs, not only for large volume shippers or operators, but also for the benefit of all the parties to international trade: the manufacturers and suppliers, the transporters, the banks and, most importantly, the consumer.

A Government agency can make all of these modern procedures available to its trading partners, however, they are only beneficial if they are properly implemented and administered. The WCO's Customs Reform and Modernisation Programme provides the comprehensive blueprint for Customs administrations to examine their traditional values, systems and procedures, and to strike the right balance between the need to control and the ability to provide a service. By examining their internal environment and organisational philosophies as well as the external environment and the demands of modern trade and society, Customs administrations can reform and modernise their management methods and operations and ensure that they provide the highest levels of integrity and public service.

International parcel delivery offers us a valuable study in how the principles of modernisation, simplification and facilitation can be implemented to meet the needs of consumers, traders and governments. We are at the very beginning of a new era of consumer trading where millions of consumers around the world will be making purchases from the global marketplace. I hope that together we will examine what Customs, in co-operation with our trade partners, can offer to simplify parcel deliveries for tomorrow's consumer orders.

The responsibilities of Customs authorities

Ms. Patricia McCauley, WCO

Given the cultural and procedural divergence among the 155 members of the World Customs Organization, and even within the 29 countries that comprise the OECD, the goal of worldwide harmonisation of Customs clearance procedures is still some way off. Procedures vary from country to country impacting the actors at every stage of the parcel delivery process including mail order companies, suppliers, transport operators, and ultimately, consumers as the compliance costs associated with these procedures are passed on and reflected in the final cost that he or she must pay.

Progress is being made toward harmonisation. Although duties and taxes on goods are still determined by each nation or economic union, tariff classifications and the rules of origin for these classifications are being standardised. In addition, information requirements and documents are standardised among the WCO and OECD members and are usually transmitted electronically. As a result of agreements and procedures established decades ago, Customs treats commercial goods delivered by private operators differently than those delivered by the postal services. Historically, Customs and postal services have worked very closely to simplify their handling procedures for mail and parcels, both for practical reasons and because it is expected by tax-paying citizens.

Customs officials need basic information about the contents of a parcel both to ensure that there is no breach of import or export requirements, and to determine any applicable duty and/or tax. However, the level of information required and/or the means of collecting the duty and taxes may vary.

The time and method employed by Customs officials to process goods delivered by either private carriers or by the postal service is usually indistinguishable to the consumer. Most national legislation calls for quick determination and release of parcels by Customs authorities. Under postal administrations, Customs releases the parcels to the post, which collects the duties and taxes from the consumer, and then pays Customs. For private operators, the arrangement is similar; however, some private operators view the Customs clearance arrangements for parcels delivered by postal administrations as requiring simpler information in a simpler format. Non-commercial parcels carried by private operators continue to be treated as part of a commercial service, that is the private operator supplies Customs officials with nearly the same level of information for commercial goods as they do for personal consumer goods.

The shipper, either the post office or the private operator, furnishes Customs with the required information about a particular parcel. In both instances, if the goods are of a commercial nature (not for the private use of the buyer or the consumer) further documentation and procedures will apply. In these situations, private operators generally have the required information and are able to quickly prepare the necessary documentation for Customs. This speeds the parcel's release from Customs as compared to delivery by most postal services as they would generally need to notify the customer that more documentation or information is required, and incur further delays.

The WCO is committed to promoting the highest standard of modernisation, simplification, harmonisation and integrity among its members, and providing them with the necessary technical assistance and the legal instruments to allow them to meet these standards. New systems and modern procedures, especially the use of information technology, should be promoted to ensure efficient and affordable services for consumers while allowing Customs officials to efficiently carry out their tasks.

Mr. Mike Parsons, UK Customs and Excise

The role of Customs and Excise, as with most Customs administrations, is to collect duties and taxes; to protect society by preventing the exportation and importation of prohibited and restricted goods; and, to ensure compliance with trade agreements. UK Customs and Excise works to provide the best service possible to all carriers without causing problems or delays to trade.

In the United Kingdom, there are *de minimis* arrangements below which duty and tax is not collected. These *de minimis* levels apply to parcels of GBP 18 value and gift arrangements of GBP 36 value, and full Customs entry is required only when the value of the goods exceeds GBP 2 000. UK Customs and Excise works very closely with the postal authorities that collect money on their behalf. Low duty packages carried by private express carriers, are cleared through bulk entry provisions, which allow information to be provided to Customs prior to the arrival of the goods. Customs and Excise uses risk assessment techniques such as audit based controls to ensure compliance with laws and accurate tax and duty collection.

The Kyoto Convention, currently being revised by the WCO to reflect today's practical needs, should be regularly updated to reflect the latest procedures, evolving technologies and input by the trade and transport industries is an absolutely essential aspect of this process. Customs officials should be made aware of any problems that might exist that could impede the delivery process. Finally, while progress generally involves greater use of information technologies, it must be noted that progress will take some time as not all Customs administrations have the technology available to them.

Mr. Robert Mall, United States Customs Service

In recent years, Customs procedures have been improved through the use of electronic information exchange and risk management, significantly reducing the need to examine every package. The 1993 Customs Modernization Act made significant changes to the process including:

- Raising the informal duty limit to USD 2 500 (currently it sits at USD 1 250; once it exceeds that amount, a more formal procedure sets in, usually requiring a broker).
- Allowing for electronic and paperless entries and payment of duty and the remote filing of Customs documents; recognised periodic or monthly filing of entries and duty payment.
- Removing a requirement to examine one in ten packages.

Most importantly, allowing for administrative exemption, or a *de minimis* for duty payment, provided the value of the good does not exceed USD 200.

A number of cost studies have been conducted in the US, however, it is very difficult to isolate the cost of processing parcels which leaves these studies somewhat flawed. Processing goods entering a country involves more than just Customs charges as there are also processing costs from other government agencies. Figures will also vary depending on the country and the technology employed by other Customs administrations. It is easier to analyse the time necessary to process a parcel than it is to identify costs.

Steps for clearing goods through Customs can be clearly broken down, thus the time required for each step can be isolated making it easier to focus on problems that might exist.

Using a 2% random sample of goods arriving by vessel or by aeroplane, one study of release times measured two periods in the clearance process:

- The time from the arrival of the goods at the port of entry to the time of release (arrival to release).
- The time of the submission of documentation to Customs to the time of release by Customs (submission to release).

The study revealed that for all shipments via air and vessel, the average time from arrival to release was 47.5 hours and from submission to release the time was 7.5 hours. Some or much of the 40 hours prior to submitting documents electronically to Customs, is time used to prepare the submission or to comply with other government requirements. For shipments that had pre-files -- Customs data submitted before the arrival of the shipment -- a provisional release was given prior to arrival, setting the release time at zero. Pre-filing can compress the 40 hours of preparation time and Customs can assist by providing systems to further speed up the release time. Pre-files were used to clear approximately 20% of the sample, resulting in an arrival to release time average of 33.5 hours.

A subsequent study found the average arrival to release time was reduced from 47.5 to 26.5 hours, due, in part, to an increased use of pre-filing. Studies also determined that paper entries take approximately 56 hours to release while paperless entries took only 24.5 hours to release. However, since many of the paperless entries were pre-files, by using a negative release time calculation (provisional release prior to arrival) the study showed that it took only 28 minutes to release paperless entries. Finally, as an illustration, the fastest release times were reported in those districts that have resident express carrier hubs (Memphis, Louisville, etc.).

Mr. Mitzutani, Japanese Customs

In Japan, approximately 3.2 million import declarations were cleared in 1996, three times more than in 1991. To cope with the increased volume, the Japanese Customs Administration has undertaken measures to facilitate and simplify its procedures:

- In 1978, an automated cargo clearance system was introduced which electronically connects Customs terminals, couriers, warehouses, operators, Customs brokers, and banks. In 1995, approximately 90% of all air cargo deliveries were processed using this system.
- In 1991, Customs began to check documents prior to the arrival of the cargo. Upon arrival of a shipment, import permits would then be issued to the bonded warehouse, which required no physical examination.
- In 1996, an immediate delivery system was introduced, through which import permits could be issued without physically bringing consignments into a bonded warehouse, and also included the condition that no physical examination would be required.

The Japanese Customs administration has conducted surveys to measure the amount of time required to clear packages through Customs. The surveys also analysed the impact of pre-arrival examination systems used to facilitate Customs clearance procedures and showed that the time required for Customs clearance has been steadily reduced to an average of 1.8 hours for air cargo imports. The results of the survey showed that facilitation measures actively contribute to shortening the time required for import procedures.

Finally, the Japanese government continues to apply comprehensive measures to prevent the entry of illicit drugs and dangerous goods and help ensure the safety of society, by strengthening Japanese border controls. These priorities must be preserved when considering facilitation issues throughout the revision process of the Kyoto Convention.

The handling of a typical consumer package

Mr. Jean-Claude Fournier, La Poste, France

In France, Customs control and monitoring are based exclusively on Universal Postal Union labels (CN22 and CN23) which contain all the information required by Customs including the country of import and national or Community legislation. French Customs officials also work to clear parcels as quickly as possible, and controls are carried out only on a few essential components to ensure adherence to regulations. The quality and speed of the clearance process are linked to the ability to determine that the information on the forms is correct and the communication between Customs and post offices within the country and within the monitoring or checking centres. With the expected increase in volume of parcels resulting from growing Internet-based commerce, Customs officials must develop procedures to ensure that goods can be cleared quickly and to reduce operational costs.

In France, parcel clearance is carried out jointly by postal operators and Customs officials and generally occurs at Customs clearance centres located in exchange offices and postal offices at national borders. For goods imported into France, postal authorities separate parcels that require the payment of duties from those that do not. Parcels then continue on through the postal network or are held back while Customs authorities review the accompanying documents and determine whether any additional information is necessary. Simplified procedures are applied to low value and bulk shipments.

Computerised duty payments allow Customs authorities to establish both clearance documents and delivery documents for the postal authorities. Based on these documents, parcel recipients pay the applicable duties and taxes and these amounts appear in the accounts of the final postal office. The postal authorities then have a credit that enables them to pay the required charges. The payment records are checked on a monthly basis and given to the postal accounting offices, which are, in turn, responsible for making monthly payments to Customs. The interface between the computers in the exchange centres and the computers in the postal accounting offices allows us to monitor the monthly transactions. The system also establishes a list of items for which duties have not yet been paid. A special procedure exists for the cancellation of dues paid and, in cases where goods are returned to the country of origin, the taxes and duties will be reimbursed.

In certain cases, mail order purchases may not be subject to individual taxes and duties. Mail order companies can use a representative based in France to apply a specific procedure for clearance in the

Customs office of the area where the purchaser lives. Parcels are then accompanied by a CN23 form and follow the normal postal procedures for delivery to their final destination. When the parcel arrives in the exchange office, the checking unit reviews the CN23 form and checks the domicile of the tax representative to determine whether or not the form carries the same information as the parcel. In the Customs office of the purchaser's area, a monthly declaration is made on all imports to the area and the duties and taxes are then paid. In France, this simplified procedure is generally a satisfactory arrangement, taking into account the specific arrangements for correspondence sales and mail order purchases, and allowing authorities to satisfy 90% of all demands. Postal offices in France have been able to expand their activities on the international parcel market and are well aware of the advantages of simplification and harmonisation of procedures.

Mr. Phil Hughes, United Parcel Service Airline

The United Parcel Service (UPS) processes more than 12 million parcels a day and international parcel delivery is becoming a major segment of this business. I would like to outline the procedures and documents required for a typical shipment. For example a shipment of two sweaters ordered through a British catalogue firm and valued at approximately GBP 135 (about USD 200) -- not including shipping charges -- paid for using a Visa card, and a purchaser request for express shipment via UPS for delivery to New York City within two days.

The procedures and the documents required for export can add costs and time considerations to the movement of this typical consumer parcel. First, the shipper must complete the UPS waybill which includes: the seller's name and address; the buyer's name and address; a detailed commodity description; the country of manufacture; unit price; total price; and, the terms of sale. Next, an export declaration, whether a single export declaration or a consolidated export declaration, must be made to export the shipment from the country of origin. Then an export manifest, listing all shipments departing on the private carrier, is completed and filed for export. In addition, the aircraft and the crew clearances must be made upon arrival in the destination country, in this case the US, and an import manifest of all parcels on board must be filed with US Customs.

In many cases, manifests are pre-filed especially for short flights, for example flights from Canada or Mexico to the US or vice-versa, as there is not enough time to submit the information prior to arrival in the destination country. These manifests serve as control logs to ensure that all shipments are cleared at the port of arrival or approved for onward movement to another airport for clearance.

All import parcels are processed into an approved Customs bonded facility pending clearance or bonded movement onward. In the United States, parcel clearance and import procedures work as follows: Customs clearance must be handled by a licensed Customs broker, though importers themselves may also clear the goods. However, in the case of private express couriers, where all goods are moved to express clearance hubs and facilities, it is not practical for individual consignees to go to that facility and clear their own parcels. In these cases shipment data and the shipping documents must be given to licensed Customs brokers who must then clear the parcels. This is normally accomplished by moving the commercial documents via the "captain's pouch" or "cargo pouch". The broker then completes the Customs import entry or entry for release followed by an "entry summary" detailing the amount of duty and harmonised tariff codes. Skilled brokerage employees must examine the documents and the shipment information to determine: the proper tariff classification; any requirements for review by other government agencies; whether certain parcels should be examined for enforcement inspection; and, finally

determine the proper duty and tax amounts payable. Customs officers are employed or engaged in express facilities throughout the US and in some other countries to provide for immediate clearance.

The parcels are then released by Customs for delivery to the consumers. The courier or broker is required to maintain copies of all the documents and clearance declarations for a minimum of five years (in some countries for as long as six or seven years). Payments for duty may be collected from the consumer at the time of delivery, or billed if the consumer has an account or it is charged through a credit card.

Some parcels are refused because they are received late or because consumers are unaware of and unwilling to pay the applicable Customs duty charges. In many cases where a consumer fails to accept a parcel, private carriers will then contact the shipper either through a fax, phone or e-mail to determine the disposition of the package. In some cases the shipper may be able to direct the parcel to an alternative consignee purchaser. The shipper may also direct the private carrier to return the parcel to the country of origin and, in many cases, must agree to pay the return shipping charges. The carrier must file for duty "drawback" to recover duty, charge the duties back to the shipper, or simply write off the duty amount. In many cases this last option is taken because the duty on a typical consumer parcel entering the US would not exceed 4–5% of the price, which may not justify the process to file for duty drawback or chargeback.

There will always be some cost associated with the exporting of goods. Even the example given of two sweaters purchased by a US consumer from an overseas catalogue seller [GBP 135 in value, two sweaters] was not as simple as it might appear. In fact it would not qualify for *de minimis* because textiles are a restricted commodity under the US *de minimis* rules and require a formal entry. A formal entry remains a relatively complicated and timely process of filing entry documents, entry summary documents, duty payments and so forth. The total cost of shipping the parcel would include, in the private operators'/couriers' scenario: pick-up and delivery, Customs clearance and air transportation, charges. Costs can vary, depending the value and the type of commodity, whether it qualifies for a gift exemption, or whether it qualifies under *de minimis* in a particular country. A simplified clearance procedure could bring the cost down to USD 10-15 as opposed to USD 45-50.

The consumer's needs

Ms. Lucy Harris, Consumers International

Customs clearance is a new issue for consumers. As citizens, consumers recognise the need for some kind of border controls to protect them from illegal imports and exports of hazardous goods. However, the taxes and duties applied to many products add to the overall cost of buying goods from another country and clearance delays are deterrents to international purchases. Consumers want efficient and affordable service. Anything that might complicate the purchase of goods over the Internet will be a disincentive to them.

Internet-based commerce offers new possibilities for consumers: the convenience of ordering goods from the comfort of home, greater choice and potentially lower prices. But as they consider making purchases online, consumers will have to weigh the advantages against the disadvantages, which may include the high cost of delivery.

The basic questions facing consumers are -- how much does it cost, how long will it take, and what happens if things go wrong? Consumers will need to receive the same level of service as they currently have within the national borders of a country. An essential element to help ensure this continuity is greater harmonisation of Customs clearance procedures, which should be undertaken as soon as possible. Harmonisation with respect to pricing mechanisms and the development of fast track clearance mechanisms -- perhaps among countries and in co-operation with the private sector (e.g. merchants). Even the development of a kind of one-stop shop for the consumer where the product can be ordered, and information can be provided -- particularly about all possible charges related to the order. In addition, easy to understand documentation must be provided and made available to consumers electronically. There must also be clear and uncomplicated return procedures and assurance that taxes or duties paid will be refunded in the case of returned goods. New technologies should be harnessed in order to encourage consumers to buy across borders.

Consumers will embrace Internet-based commerce if, and only if, time, money and effort can be saved. If the global market for consumers is to become a reality, these issues must be addressed. If progress is too slow, and if consumers experience problems then this form of cross-border trade will not reach its full potential.

Alternative systems for Customs clearance:

The Canadian low value shipment system

Mr. Fred Light, Revenue Canada

Whenever a Customs administration develops a new Customs system, it is important that it maintain the capability to carry out its primary responsibilities: to determine if the parcel is admissible by national law; to collect duties and taxes; and to collect statistical information on the volume of imports and exports which impact national exchange rates.

The Canadian courier low value system (LVS) was developed to reduce the paper burden for both the private sector and the government. The objectives were to eliminate individual cargo manifests and move toward an accounting system verified by audits rather than individual examination of every document.

In Canada there are approximately 20 million courier shipments made each day – as compared to only 6 million prior to the introduction of LVS – of these shipments, 90% are commercial and 10% are casual. Approximately 13 million of these daily shipments are under the *de minimis* threshold and 7 million are dutiable but under the USD 1150 “low value” threshold, the LVS programme applies to goods that fall below that level. There are currently 37 couriers participating in the new system and the combined cost that has been borne by the exporter, the purchaser and the broker comes to approximately 5 cents per shipment.

The threshold level is kept at USD 1150 because of the importance of the statistics for the economic policy of Canada. In order to provide this important information we require data, basically descriptions of the goods and some record of the shipments, for almost every parcel.

Moving to a consolidated report eliminated 20 million individual cargo control documents. Couriers were allowed to present a single manifest with all of the parcels listed on that report. The system is paperless; with hard copy provided at a later point for record keeping. A computer system enables Customs officers to determine on-screen which parcels they want to examine. The use of a single cargo control document and computerised record keeping represent a direct savings to everyone involved, the courier, the importer and Canadian Customs.

Upon the arrival of the goods, Customs receives the cargo report, electronically reviews the report and highlights the parcels to be examined. Most carriers will separate controlled or prohibited goods ahead of time, as they must be handled on an individual transaction basis. Parcels not selected for examination will be sent immediately forward for domestic delivery. Parcel examinations are conducted on site and the courier pays the cost of recovery for services on demand. Customs has a cost-sharing agreement with the carriers (about 50/50) but most officers are stationed at one of a number of courier facilities.

The pre-sorting and movement of parcels along a belt permits a hands-on examination of these parcels which has not always been possible, thus improving our enforcement capability. A blanket pre-authorisation is provided for shipments made by pure commercial importers that import in large quantities. These blanket powers of attorney for the release of goods are granted to the couriers and to the

brokers so that shipments may be released without any particular slowdown. Legislation dictates that the courier can do the accounting for casual imports, making the power of attorney "blanket authorisation" unnecessary. A casual mail order purchaser may have five shipments a year so couriers and brokers are given the authority to clear shipments on their own.

Blanket authorisation has resulted in faster release and delivery time for importers and has eliminated approximately 40 million release documents. The importers and the brokers present a monthly, consolidated entry of all goods that enables us to perform an audit at a later date. The broker must keep complete records but has the flexibility to choose how to consolidate the reports, either by carrier or by importer (by consolidating these reports, 7 million paper entries were eliminated).

The time frame for the final accounting and payment was also extended. Normally couriers have only five days after a major shipment is received to remit Customs duties, however, under the LVS scheme, couriers have until the 24th day of the following month. This improves the cash flow for the importers and brokers. The Canadian government took a one time hit in the fiscal balance of payments at the beginning of the scheme to accommodate for this change, but it was not substantial.

For refunds and adjustments, the importer's broker is required to submit transactional requests. However, in the case of returned mail order goods, a Canadian-based broker is nominated who acts on behalf of the mail order company. The broker will electronically transmit a refund request for all goods that have been returned, and a payment by check is sent directly to them. In contrast, commercial importers have to follow specific procedures and file a full commercial refund claim, which is expensive and time consuming. Consumers who do not use a qualifying mail order system would put their parcel back into the mail stream, returning it to the country of origin, and file an individual refund claim.

For individual transactions, Customs reviews entries on an individual basis for accuracy or clarification. As resources are scarce, most Customs departments in Canada are moving towards an audit capability, differentiating between high and low risk goods and high and low risk importers. For the courier LVS system, classification, time of release, and even the time of entry are not examined until after the fact -- when a broker or importer has been audited to determine whether they have classified goods properly.

The courier LVS system was designed to handle an already large and ever-increasing volume of commercial imports. Its successes have included allowing couriers to file their shipment reports in advance, having the reports consolidated, allowing for consolidated entry filing, and allowing for consolidated monthly payments of duties and taxes. These steps have eliminated a large volume of paper documentation and costs have been substantially reduced for carriers and brokers when processing a courier LVS package.

The courier LVS system was developed for commercial packages. However, we also considered developing a special programme for mail order items in the non-resident Customs accounting programme. The postal system in Canada was inefficient and as a result, the *de minimis* limit for release of parcels free of duty and taxes was set artificially high. A number of Canadian retail firms complained that they were being unfairly disadvantaged by these practices and it became necessary to change the postal system.

There is a high volume of traffic between US mail order companies and casual purchasers in Canada, accounting for approximately 10 million parcels a year. Mail order company's are now: taking the order by telephone; collecting the taxes and duties in advance; arranging for the authorities to clear the goods on behalf of the casual importer in Canada; arranging for shipping to Canada; clearing the goods after payment of taxes and duties; and releasing the parcels through the domestic mail directly to the

purchaser. This arrangement also provides a system for parcel returns. In some cases parcels are returned to a central point in Canada, to a broker acting on behalf of the mail order company. This facilitates direct refund of not only the value of the good but also the duty and taxes because the broker knows he can recover it from Canadian Customs.

Before Canada introduced a non-resident Customs accounting programme that would facilitate this procedure, private industry stepped in and implemented the system directly. The flexibility of the courier LVS system allows consolidated reporting and payments, which in turn facilitated the introduction of this one-stop shopping mail order system. Canadian Customs brokers, as well as the courier companies, are allowed to become courier LVS participants. The courier companies were already in the business of clearing commercial shipments on a one-on-one basis, single exporters to single importers, as goods were required in an expeditious manner. In becoming courier LVS participants, brokers assumed responsibility for reporting to Customs and for ensuring that the duties and taxes on the goods were paid. Thus, the brokerage industry and US mail order companies co-operated to develop a very flexible one-stop shopping system even though it involves the participating brokers pre-classifying all the goods in the mail order companies' catalogues. Customs examinations have shown that the courier LVS system works almost flawlessly and substantially reduces costs. Private industry took the initiative and is producing these payments to Canadian Customs at a cost that Customs itself would have been unlikely to match.

Mr. Amin Mitha, Federal Express

The demand for express transportation has accelerated dramatically and this growth has been propelled by three major factors. First, the worldwide growth of electronic commerce makes swift movement of goods and information vital to the survival of individual economies. The second factor is increasing globalisation and national economic integration supported by highly advanced transport and telecommunications systems -- time and space are becoming almost irrelevant in terms of global business opportunities. Third, production and distribution are moving to fast cycle methodologies where the objectives are to reduce costs, decrease time to market and continuously improve quality. As an indication of this, world air cargo growth projections are currently at 6.8% per year, and are expected to grow to an estimated USD 300 billion by the year 2000.

Federal Express provides its customers with a fully integrated global air and ground transportation network, the ability to manage inventory, distribution, and logistics as well as the information technology that allows for transparent custodial control of the goods and documents in its systems on a 24-hour real time basis. Federal Express customers compete as much by time as they do with money. Federal Express has been concerned that consumers are often forced to decide whether costs or time are relevant factors in their choice of courier often sacrificing one for the other. Another interesting statistic relates to the number of products that are being shipped "just-in-time". The majority of Federal Express customers are commercial enterprises, which account for approximately 90% of all of our shipments and these are, in turn, predominantly from exporters or importers who ship their products "just-in-time".

Federal Express has been one of the six private couriers participating in the LVS programme since its introduction in 1993 and our company remains interested in further co-operation with Revenue Canada. While the objective of Customs' officials was to save clients' time, reduce costs, and expand enforcement capabilities through the use of this programme, Federal Express' objective was to increase

value to its customers by reducing the clients' obligations, lowering internal costs and, ultimately, enhancing service commitments to offer new services to customers.

The benefits of the LVS system were visible almost immediately. Approximately 70% of all freight carried into Canada by FedEx qualifies under the USD 1150 LVS ceiling. FedEx Canada has computer terminals set up at the FedEx client location for use by Revenue Canada officers and we provide Revenue Canada with an electronic manifest from which they may pre-select (without FedEx's knowledge) any shipment they wish to either target for enforcement purposes or select for inspection. FedEx also complements the efforts of Revenue Canada through the use of FedEx's own selection criteria, intercepting packages that may have been under-valued or where we suspect fraud.

The LVS programme helped Federal Express Canada Ltd. to achieve a growth rate of 20% per year in Canada since 1987. The LVS system has enabled Federal Express to improve service reliability and bring forward commitment time on the majority of import packages to help ensure time-definite delivery for our customers. The simplification, standardisation and harmonisation of Customs procedures globally are key factors that will help to facilitate international trade and the Canadian LVS system is a step in the right direction.

The emergence of electronically based communications, specifically the Internet, has accelerated the demand for rapid and reliable international moving of physical goods and documents. These technologies have made the system at Federal Express more accessible to our customers and they have opened the door for new forms of international marketing including the use of catalogues in industry and international mail order. To respond to these new forms of technologies, the Federal Express Web site makes it possible for individuals and companies to do their shipping on the Internet. New divisions within the corporate structure are working to develop the logistics for electronic commerce and catalogue sales specifically to address these needs.

In addition to the LVS system, Federal Express, in conjunction with APEC member economies and the US Department of Commerce participated in the successful development of the APEC tariff database on the World Wide Web. The database was intended to serve as a model and to provide assistance to countries that may lack sufficient resources to move forward with this type of innovation. This database contains tariff and Customs information for 18 countries, and is accessible without charge to anybody with Internet access.

New technologies are making our systems more accessible to customers and have paved the way for new forms of international marketing of relatively low value commodities. The growth of this market segment is putting immense pressure on the transportation industry to move these products at the lowest possible cost. There are signs that with the growth in high value commerce that is driving the express segment, a closer look at expediting clearance of the type of cargo that is beginning to dominate the air express infrastructure is required. Avionics equipment, machines, etc. are typically categorised as high value and we must work to simplify and facilitate moving this type of product around the world.

Ms. Laurel Milos, L.L. Bean

The L.L. Bean company based in Freeport, Maine, USA, has 85 years of catalogue and retail experience specialising in outdoor sporting specialities -- clothing, footwear and equipment for enjoying the outdoors. In 1996, our worldwide sales reached USD 1.2 billion and we shipped 1.4 million parcels to

152 countries, from our warehouses in Maine. L.L. Bean has found that customers' basic requirements are the same whether they are ordering from the United States or from any of the other countries to which we ship. Customers want to know the costs at the time of the order, and they want those costs to be reasonable. They not only want to know the merchandise costs, but also the applicable duties, VAT and other extraneous costs. They want low cost delivery, free or low cost phone access and, increasingly, access via the Internet.

Customers want the process of making returns to be easy and quick. If they have paid by card they would like payment to be credited to their card account as quickly as possible. They would like to have a local contact for the return, so that they know where they are sending the package, to have reasonable assurance it will get there and, most importantly, that the cost of returning that package will be low. Unlike much of Europe, in the US the customer does pay the bill for making returns.

If the overall costs are too high or the process is inconvenient, the customer simply will not place an order and the transaction will not take place. Canadian shoppers have experienced the convenience of the LVS system -- a combination of couriers that truck their goods together to the Canadian border overnight where the goods enter directly through the brokers into Canada Post using the LVS system. A Canadian customer has toll free access to L.L. Bean in the US and we provide bilingual service to Canada with nearly 50% of the firm's representatives able to speak both French and English. The packages arrive three to seven days after the customer places the order, depending on where the customer is in Canada. The total cost to the consumer is quoted at the time of the order and L.L. Bean collects duties and GST in advance at the time of the order so that customers know what they are paying.

Canadian customers make returns via Windsor, Ontario where they send the goods back to the broker whose hands it passed through originally. The broker confirms that the merchandise the customer is returning is indeed what they have said they are sending back across the border. L.L. Bean is then able to rapidly process the return because even before the goods make their way back to the warehouse Maine, the broker in Canada has sent the paperwork back to L.L. Bean via Federal Express. The next day, L.L. Bean fulfils the customer's request whether it is for a credit to their credit card account or a merchandise exchange. The last semi-annual survey revealed that 97% of our Canadian customers were very or somewhat satisfied with their shopping experience with L.L. Bean. Many customers voiced their dissatisfaction with having to pay duty on the GST in Canada and an eventual sales tax in some cases, but there is nothing L.L. Bean can do about that. On balance, the firm has a fairly happy customer group in Canada and the business continues to thrive.

Distance sellers are satisfied to know the accurate duty is being assessed. In the LVS system the broker maintains a database of L.L. Bean's complete inventory, keeping track of each item and every package that crosses the border. A customer can take full advantage of the Free Trade Agreement between Canada and the US on US made merchandise and, conversely, they pay Revenue Canada the full duty owed on merchandise from, say, Hong Kong, China, or other places offshore.

The system for dealing with the duties and tax paid on returned items the broker makes on behalf of L.L. Bean is sound, and involves very little paperwork. With the exception of the delivery label on the package that is attached at the warehouse, everything is done electronically.

From L.L. Bean's perspective, the LVS system is a win-win situation, with everyone in the purchasing chain doing the things they do best. L.L. Bean interacts with its customers explaining its goods and services and giving advice throughout the ordering process; the broker handles the Customs clearance; Revenue Canada gets exactly what it requires from the transaction; and Canada Post (which is the delivery agent in Canada) is left to do what it does best, which is taking packages to our customers.

In contrast, while the United Kingdom is a significant market for L.L. Bean in Europe, the situation for our customers there is quite different. For our deliveries to the United Kingdom, UPS is the courier and Parcel Force is the final delivery agent. L.L. Bean provides toll free phone access from the United Kingdom to its call centre in Freeport, Maine, but there is little further good news for our customers in the United Kingdom. The applicable duty, VAT, and the Parcel Force service fee are unknown at the time of order, so we cannot tell our customers in the United Kingdom what additional charges they will be expected to remit. Duties are frequently over- or under-charged and while we receive complaints from customers saying that they have been overcharged for duty, not surprisingly, we do not hear from the people who have been undercharged. However, in reviewing the paperwork for those who believe they have been overcharged, the investigation often reveals they have actually been undercharged for duties, so Her Majesty's Customs and Excise does not always receive its due under the current programme.

Packages can also be delayed at various stages along the line, such as USPS or Parcel Force, but also at the Customs clearance site. Packages arrive 8 to 28 days from the time the customer orders and the average customer fee paid is USD 35, which is a considerable shipping fee for a customer who may be waiting close to 28 days for delivery.

In the case of returns, customers ship packages directly to the Freeport warehouse. The cost of the average return is about GBP 12, again a fairly large fee. If the company is at fault or if a consumer is unhappy with the situation, the company often refunds the return-shipping fee in an effort to retain the customer's business and avoid a bad shopping experience. In contrast to the 97% satisfaction rate in Canada, only about 52% of our customers in the United Kingdom reported themselves to be "very or satisfied" with their purchases.

Mr. Louis Saint Arnaud, Custom Brokers Association, Canada

The LVS system originated in response to lobbying from carriers and small service providers looking to accelerate their deliveries, and reduce their Customs warehouse costs and paperwork. Some Canadian importers also saw advantages in the LVS system to help accelerate their own deliveries, sustain "just in time" management systems and maintain low inventories. More by luck than by design, the LVS system also offered consumer conveniences, especially for consumers who were not purchasing goods from organised mail order companies like L.L. Bean. Before the implementation of the LVS system a consumer would receive a paper arrival notice from the carrier (usually by mail) announcing that goods were arriving for him. The Consumer would then have to go to a Customs office to clear the goods and pay the applicable duties and taxes -- an operation that is rather beyond the common knowledge of a typical consumer. With the implementation of the LVS system, parcels are delivered directly to the consumer's door. There is, of course, a COD charge with that parcel for the duty, the tax and sometimes a fee from a courier for custom clearance.

Initially, there was some resistance to the implementation of the LVS system, primarily from Canadian Customs brokers. In order to fully implement an LVS system and make it work smoothly, courier companies had no choice but to become Customs brokers themselves. They had to apply for Customs brokerage licenses specifically intended to clear these shipments for commercial importers and to clear consumer goods, thus becoming seen by regular Customs brokers or main custom brokers as competitors.

To further compound the problem, in order to streamline the system for regular commercial importers, courier companies had to ask Canadian Customs brokers for customer lists so that when shipments arrived for one of those customers, the couriers could divert the Customs documentation to their regular broker to complete. Customs brokerage, particularly commercial Customs brokerage, is very importer-specific. Customs laws in Canada are rather complex and most commercial importers did not want to share their business information or their Customs brokers' business information with a courier company turned Customs broker. Once these issues were resolved and the courier companies managed to determine to which Customs brokers to direct information, the system began to work very well, but initially Canadian Customs brokers required a lot of reassurance.

The LVS system works well and it has reduced costs for everyone concerned. Customs brokers also benefit as goods are forwarded directly to the importers as soon as they arrive. The Customs brokers prepare the documentation for their clients after the fact, and submit the consolidated documentation to Customs on a periodic basis.

Although the system now works very well, it has some small recurring problems that are inherent to the system's structure and, unfortunately, appear to be unavoidable. For commercial importers the greatest problems surround unsolicited goods such as samples and promotional gifts. These items are expedited to the LVS system and delivered whether the importer wants them or not. So the importer is generally not able to decide whether to clear (accept) those shipments or not. An importer can always elect to refuse the shipment at their door or to return it but they then incur the associated expenses -- paperwork must be completed to return or to dispose of unwanted goods.

Some consumers have complained that they are unable to clear their goods themselves because the LVS system is an automatic pipeline. Goods arrive and are automatically cleared and delivered. Some consumers who are more frugal than others would like to avoid the small fee paid to the courier to clear the goods or avoid the USD 5 processing fee charged by the post office. That is impossible within the LVS system, consumers must either pay those fees or simply return the goods. Some consumers also complain that they have to pay fees for gifts or donations, but that is only a small irritant. Unfortunately, these problems are built into the system and, although they are not a major problem compared to the overall benefit of the system, they are bound to arise and Customs administrations should keep them in mind when developing and implementing a similar system.

As for Customs, we are also encountering recurring nuisances. Obviously, the speed at which goods are cleared causes mistakes and opens the door to fraud. In one instance, some commercial importers of textile goods were importing their goods in small package quantities in order to avoid the import permit system requirements in Canada that control quotas on textile imports. This continued for some time until it was discovered by External Affairs and the Customs administration and was able to rein it in.

The under-valuation of goods in order to expedite clearance is another common problem with the LVS system. A shipment labelled as being valued a USD 1 000 will clear under the LVS system and be delivered instantly at the importers. It is tempting for some companies to undervalue very much bigger value shipments in order to get them through the system. This is an enforcement issue that Canadian Customs is attempting to resolve. Overall however, for Canada, for brokers, for importers, and for consumers, the Canadian LVS system has been an almost unmitigated success.

Modernisation procedures in New Zealand Customs

Mr. Mervin Kemp, First Secretary, New Zealand Customs

Since 1993, New Zealand Customs has been involved in planning and developing a NZD 22 million Customs modernisation programme. Years of development have been devoted to mapping out, in some detail, all of the procedures used in import and export clearances and attempting to identify those procedures which either do not add value, or cost more to the consumer and are unnecessary. Central to the project has been the integration of three large systems into one integrated computer system, which has boosted our Customs facilitation and enforcement programmes. It is expected that this modernisation programme will provide almost 6% growth potential and enhance performance to both to the government and to clients. The perspectives of all relevant groups have been taken into consideration and assistance from postal authorities and express carriers has been central to this process.

All postal mail arriving in New Zealand is handled by New Zealand Post. All international mail is screened at a central point in Auckland and all goods that are subject to duty are reviewed at that point. Last year, the Customs service screened some 53 million items of incoming mail. Although small when compared to Japan, the United States, and Canada, it still shows that, even in a small country, the volume of mail traffic is enormous. From a Customs perspective, each mail item imported into New Zealand costs approximately USD 00.96. This means that in terms of the extra cost to Customs and to the government, 00.96 is added to the cost of each mail item. More rigour, however, is needed when determining costs. There will always be a Customs cost in moving goods across borders. New Zealand has established some preliminary liaison with UK Customs with respect to benchmarking, not only in terms of postal traffic and express consignment but benchmarking in totality of the service to clients. New Zealand Customs, like UK Customs, uses some very advanced models in developing this issue.

Computer based technology is being used to a much greater extent to process incoming mail and provides us with better targets and productivity gains. We have also found some measurable productivity benefits in centralising all clearance and revenue collection at one point, which we have done in partnership with the New Zealand Post. There had previously been a total of 16 separate collection points.

There have also been significant improvements related to express carrier consignments. New procedures introduced in October 1997 enable express carriers to electronically transmit manifest details to New Zealand Customs allowing consignments to be launched into the system directly from electronically stocked cargo manifests. Screened electronic cargo information saves time and paperwork by replacing the old manual manifest system. All revenue entries are automatically updated through an automatic counting system that includes details, refunds, cancellations and adjustments. This process enhances work management functionality and improves procedures and technology used to manage and record all activities and outcomes of inspections, other than full searches.

New Zealand is in the process of examining the whole concept of philosophy of the *de minimis* level system, which is currently set at NZD 50. A working party is examining whether or not the *de minimis* regime should either be increased or totally eliminated. With true EDI and electronic fund transfer a possibility, the necessity of *de minimis* must come under consideration.

The potential increase in parcel traffic related to Internet orders has been discussed in liaison meetings with industry. In New Zealand, the growth of parcel traffic related to Internet purchases is certainly not restricted to small packages. Any system intended to deal with the increase in ordering through the Internet must also accommodate also larger consignments -- there are examples where earth

moving machines have been ordered and shipped through the Internet process. A national call centre has been established -- a service provided specifically with the Internet in mind. Customers can call a New Zealand free phone service 24 hours a day, seven days a week to obtain an accurate assessment of likely duty that would be levied at the time of importation. The information they receive is only an estimate -- the full calculation being made when the goods arrive. This is just one example of the consumer-focused action that has emerged from industry liaison.

Fostering the relationship between government, industry and trade representatives has been one of the primary facets of the New Zealand Customs modernisation. A number of memorandums of understanding have been established between NZ Post and express courier companies, and good working relationships have been developed among everyone involved in the industry. In addition, a two-stage consultation process has been undertaken to improve liaison between Customs and industry. The first stage involves a series of interviews within the industry context to determine their understanding of modernisation and the tangible benefits they can see appearing from this investment. The first survey showed that, while not everything in the revamped Customs system was seen as perfect, there was generally a high degree of satisfaction with the direction that the service has taken.

The second stage involves the establishment of a joint industry consultation group. The co-operation of six industry groups was sought to nominate senior representatives to discuss the whole spectrum of Customs-industry issues. To demonstrate the commitment that the Customs service has to this essential process, the Chief Executive of New Zealand Customs is the representative at the industry liaison group. The terms of reference for this group include: the enhancement of communication between industry groups and Customs; the transfer of benefits; and the identification of statutory and regulatory barriers with which Customs must be associated, in terms of government's social and economic programmes.

European Community: Single Market Transitional System

Ms. Maryse Volvert, EC DG XXI

The Single Market Transitional System was established to replace Customs procedures between the EU Member states that had previously been eliminated. Despite the fact that border checks between Member countries had been abolished, consumer tax rates applied by the Member countries are different and the VAT needed to be collected properly in all Member countries. To help ensure that all Member countries are able to collect what is due, a system was organised to allow authorities to tax cross-border direct sales to consumers in the EU.

As an example, the same product can be subject to 0% VAT in one Member state and 25% in another. The system also had to guarantee proper competition among the various countries of the EU. The basic principle established that the VAT is collected in the country of departure of the goods. In another words, if a consumer wants to buy something in another Member country the VAT is paid in the country of origin of the goods. However, given the large differential in the VAT rates applied, the system was set up to avoid allowing companies from low rate countries have an undue advantage over other countries where the VAT rate is higher. In cases where the seller has been responsible for transportation to the consumer, the goods are taxed in the country of the consumer.

The system was established to calculate the tax to be levied in the country of the consumer. It is the seller -- the company providing the goods -- that has to pay the VAT on sales in countries other than his own. In cases where the seller is not established in the second country, a link to a correspondent within the second country must be established in order to pay the applicable VAT.

This system was developed in an effort to resolve the difficulties that arise when companies from one Member country do a significant amount of business in other Member countries. A company that sells to consumers in other Member countries and is responsible for the transportation of its own goods, but does so only occasionally (without carrying a high revenue) can apply the VAT of its own country, i.e. the country of origin of the good.

Member countries have the option of setting the minimum sales volume limit at either ECU 100 000 or ECU 35 000. In this way, the destination country decides at what level of sales to consumers on its territory a company will be requested to pay VAT. Not surprisingly, most Member countries chose the lowest amount, ECU 35 000, in order to maximise the tax levied on their territory. However, the system is such that a seller may choose to be taxed in the country of destination.

The seller must be identified in the final country, produce an invoice for every sale, and declare the sale in due time so that consumers do not have any obligations. The seller is responsible for invoicing and paying the appropriate rate of VAT.

As an example, a company established in one Member country may sell to customers in various other Member countries. In some cases the company will go above the threshold set by the destination country; in other cases it will not, which complicates matters for the company because it is required to break down its sales figures on the basis of final destination countries. Depending on the threshold level and where the original company is located, wherever the company sells for more than the threshold it will have to make itself known. In cases where the threshold level is not reached, the company can apply the VAT rate of its own country making any extra payment.

When this system was implemented in 1993, sellers reacted in a variety of ways. Sellers in Member countries with a high VAT rate welcomed the change since it avoided an unfavourable competitive situation with sellers in Member countries where the VAT rate was lower. However, many sellers considered the system to be complex -- requiring them to break down their sales figures by country of destination and to make themselves known, possibly to all 15 Member States if they sell from one country to the 14 others.

Four years on from the introduction of the distance sales regime, it no longer gives rise to much reaction. This lack of comment does not mean that it is fully embraced, but both administrations and sellers have learned how to apply the system and administrative services try to make sure that this is applied properly.

With the increased globalisation of markets, the systems for the taxation of distant sales will have to be completely reviewed. The European Commission, together with its Member States, has set up working parties to review the consequences to be expected from the development of electronic trade, the collection of VAT that applies to the EU, and increased imports of goods from countries outside the EU.

Mr. Jerome Pitt, Dell, Europe

Dell began in the US in 1994 as a strictly mail order company selling PCs over the phone, through catalogues and advertising and we are now one of the largest PC sales companies in the world. The principle difference between Dell and other PC manufacturers is that Dell sells directly to the end consumer, with no distributors involved.

Dell's original idea was to sell as a mail order company from one location in Europe but that was not felt feasible, partly because of VAT restrictions. The EU distance selling rules require the company to be registered and have a presence in every country in Europe. In practice, these rules are cumbersome and have required Dell to set up separate sales entities in every European country.

To ensure fast delivery, Dell set up a manufacturing plant in Europe to be close to the customer and the company chose Ireland as the country to establish that base. In all other ways, the Dell sales model in Europe is the same as that used in the US. Customers order by phone or over the Internet -- with Internet sales showing enormous growth (Dell made more than USD two million in sales per day over the Internet in 1996).

Once a customer has placed an order a PC is built in Ireland, and can be delivered in as little as four days. Avoiding delays in Customs because of VAT or other administrative procedures is important. In connection with its USD two billion in European sales, in 1996 alone, Dell was required to issue 600 000 internal invoices from Ireland to the various national sales entities, and another 600 000 invoices from the sales entities to the end customer which is where the VAT is collected.

Another issue arises in connection with service contracts. If a PC has a problem a third party repair company is sent out to service the machine. The repair charges are generally under warranty and the costs are billed back to the manufacturer in Ireland who holds the product warranty. Since the introduction of the relevant Directive on 1 January 1996, Dell has also incurred VAT on the billing back of manufactured goods. Under the Directive, the VAT may be then reclaimed through a refund procedure for entrepreneurs. In addition, Dell has consigned spare parts all over Europe to service PCs. The Irish manufacturers own these parts and any cross-border transfer of these spare parts requires VAT registration all over Europe. Altogether, this comprises a cumbersome and complex procedure, requiring a great deal of paperwork and administration.

Some countries allow VAT groups to exist on a domestic level within the country. Expanding this opportunity to create pan-European cross-border VAT groups would mean significant administrative savings for multinationals, and would significantly reduce compliance costs. Effectively, it would take all inter-company trade outside the scope of VAT. Approximately 80% of all cross-border traffic is comprised of inter-company trade, and such a move would mean considerable administrative savings in cross-border traffic. Although this is not something one can introduce easily, it could be implemented both under the current system and under the proposed origin system that might be effective around 2000.

It might also be helpful to follow the current practice in Ireland. Ireland operates VAT 68 concessions, which applies a zero VAT rate to Irish suppliers if the foreign customer could re-claim the VAT under the EU Directives anyway. The Irish government concluded that it was more efficient not to charge VAT in the first place if it is to be refunded anyway.

General discussion and suggestions for action

Moderator: Ms. Maureen Kidd, Revenue Canada

First to take the floor was **Ms. Catherine Mullin (UPU)** who noted that the UPU was concentrating its efforts on getting the A4 Annex to the Kyoto Convention prepared for approval. Once that work had been completed, the UPU intended to propose to work with the private operators and the custom organisations with the WCO, within the UPU Private Operators Contact Committee, to move towards more harmonised and simplified custom procedures that will benefit consumers.

Mr. Mall (US Customs Service) noted that the discussion of the successful Canadian LVS programme included an overview of its main features -- electronic manifests, pre-filing, release upon arrival, periodic filing and payment and the elimination of paperwork -- all of which are part of the Customs process for express carrier type shipments. He added that LVS has additional advantages of interest to mail order: pre-classification, easy refund, capability to pay duties and taxes upon ordering, and use of the postal system. Mr. Mall suggested that, in reality, the sweater in the example discussed earlier (which seemed to imply that LVS is fully successful), would undoubtedly clear immediately as part of an electronic manifest.

Mr. Mall also noted that figures of five cents, USD ten, USD 25 and USD 50 for Customs costs had been mentioned, but it was doubtful if any of these figures came from any reliable study. He cautioned against accepting such figures without question. He was sure, though, that there are cost saving could be made by all if goods could be released faster without compromising enforcement revenue and statistics, while eliminating paper work and other administrative burdens. The solutions appeared to be electronic filing before arrival, pre-classification of goods, release upon arrival, paperless documents and duty payments. Most Customs administrations allow for these solutions, they simply need to be applied in an effective manner. In conclusion, Mr. Mall added that all of these solutions are embodied in the revision of the Kyoto Convention.

Mr. Raven (IECC) welcomed the proposal made by the UPU representative. He noted the broad range of issues on which the carriers have identical interests to post offices in their dealings with the WCO, Customs administrations and with consumers. Any proposal to join forces and move this process forward was welcome. The remaining question would be whether the appropriate forum for the interaction is the UPU Private Operators Contact Committee, whether it should be presented to the UPU/WCO liaison committee, or whether the whole process ought to take place in the permanent technical committee of the WCO.

Mr. Alistair Tempest (Federation of European Direct Marketing) noted that the FEDM supports any activity that will help simplify Customs for cross-border selling. For FEDM members, this was a major issue and could have a great impact on the future growth of the direct marketing industry. He and his colleagues in the industry would welcome co-operative efforts to ease the burden caused by Customs procedures.

Mr. Tempest also echoed the remarks made earlier by Ms. Harris of Consumers International noting that a consumer will only buy a product if he or she knows the price before making a purchase. He also agreed that consumers need assurances that products will arrive in a timely manner, and that they know that the means exist for them to return their products without spending weeks and even months or years trying to get back custom duties which they had paid.

Ms. McCauley (WCO) agreed with the proposal for the Universal Postal Union to create a broader forum for dialogue to help move the resolution of these issues forward. She noted that the goal of improving service and predictability for all common customers was widely shared and was a positive sign for future discussions.

She also repeated her invitation to the OECD, the ICC and other international organisations to become more active participants in the many Customs simplification processes underway within the WCO. A variety of topics are being examined including rules of origin, valuation of goods, classification under the harmonised system and custom procedures in compliance matters. The WCO is an intergovernmental organisation whose members are Customs administrations, however the organisation's Convention permits other international organisations as observers. For individual companies to have more of a voice, they need to work through their Custom administrations or through organisations that are granted observer status at WCO committee meetings.

Ms. McCauley also presented an outline of a proposal to implement the common vision of the Roundtable participants that involved expanding the Canadian programme to apply to the entire global marketplace. Vendors and suppliers would be key players in setting up the system and providing the information programmes, computer programmes, databases, and other mechanisms to offer precise information to consumers. The description of the operations of the L.L. Bean company showed that developing and effectively implementing such a system is possible. The company had all the information necessary for US domestic sales orders and the applicable shipping rates available in its computer system, and intended to add data to correspond to all 152 countries in which they transact.

She stressed that this type of database should be developed by suppliers to allow them to establish payment schemes with banks, delivery plans with express carriers, postal operators or using their own delivery systems, and the ability to store and supply Customs information. Companies also need to have other information flowing into their systems, such as pre-classification in the event that the vendor/supplier works with Custom administrations that have implemented pre-classification programmes. To augment its selective physical controls, Customs also need to keep a selective control line on a minimum of shipments using audits, with the carrier providing the information and/or the duties and taxes and then Customs performing audits on the carrier. Ms. McCauley was convinced that the provisions and the principles embodied in the revised Kyoto Convention would provide the necessary mechanisms for a partnership between Customs, the suppliers, the carriers and the consumers, particularly if the legal mechanisms envisioned become obligatory to contracting parties.

Ms. Kidd thanked the WCO for the specific and detailed model for consideration as one element of the process of moving forward. She also noted that several delegations had commented on the need either to build or reinforce the infrastructure among all concerned: governments, international organisations, NGOs, and representatives of business and consumer interests, and invited further interventions.

She also reminded participants of the interest expressed by the WCO and the UPU to invite cross participation in the WCO exercise to review the Kyoto Convention, particularly the Annexes that deal with simplifying Customs procedures. In that light, she suggested that it would be appropriate to reflect upon the day's discussions to see if the Kyoto revision process reflected the thinking that emerged in the Roundtable. She hoped the final wrap up session would suggest how to this information could be integrated into the Kyoto process.

Ms. McCauley noted that there is a window of opportunity in the Kyoto process. The next round of meetings to discuss the Annex was scheduled for February/March 1998, when the Annex

covering the importation of goods for home users would be reviewed. International consumer purchases such as mail order and Internet purchases would fall into that category, and any proposals or recommendations emerging from the Roundtable could be made available for consideration by the working group. The discussions at the Roundtable could be beneficial in drafting the legal provisions for the Annex related to the importation of goods for home users.

Ms. McCauley also confirmed that there was still room for discussion of everything contained in the Kyoto revision. While the WCO did not encourage substantial changes to the work already completed, nothing in the Convention is, in fact, final until approved by the Council in June 1999.

Mr. Kemp (NZ Customs) wanted to underscore the need for any conclusions of the Roundtable to recognise the role of the 150 other trading countries. The OECD Member countries represented at the Roundtable were important, but numerically only represented a quarter of the countries involved in the global marketplace. Any notations by the Rapporteur should encourage those countries that are not Members of OECD to take the results of the Roundtable into consideration.

Mr. Parsons (UK Customs and Excise) remarked that it was important for the revised Kyoto Convention to accurately reflect the changes that would be necessary under the revision, and make recommendations to Customs administrations worldwide as to how those recommendations should be carried out. He noted that the Convention also needed to be kept up-to-date and reflect changes in the global environment. Mr. Parsons suggested a considered approach to agree on effective new procedures that would not be constrained by any particular meeting, by any particular time, by any particular text, using as much time as is necessary to make amendments to the Convention.

Mr. Raven agreed with Mr. Parsons and said that the Kyoto Convention is not really a repository of standard procedures. He noted that the only Customs procedure commonly used by the WCO with great effect is the express consignment procedure. In Mr. Raven's opinion, while the Convention should cover most of the essential points, those that were not entirely covered could be highlighted in the revision process by the proposed Guidelines. He also suggested that the Kyoto Convention was not the only way to proceed, and that some specific procedures could be developed through a process that ran concurrent with the steady progress of the Convention.

Concluding statement

Rapporteur: Ms. Rachel Larabie-Lesieur, Industry Canada

The OECD Committee on Consumer Policy began its discussion of consumer issues in the global marketplace in 1994 by hosting an international conference on the subject. At that conference it became clear that the high costs associated with international parcel delivery are an impediment to the growth of the global marketplace and the potential benefits it offers both consumers and businesses. Nevertheless, despite these costs there has been a steady increase in international parcel delivery, a trend likely to continue with the development of electronic commerce.

Summarising the day's Roundtable discussions, I would like to suggest the following conclusions:

- The cost and inconvenience of international parcel delivery are significant barriers to the growth of global electronic commerce.
- National Customs clearance procedures contribute substantially to high delivery costs and consumer inconvenience, and are in urgent need of streamlining.
- Streamlining Customs procedures will allow authorities to devote resources to higher priority activities including the control of drugs or other restricted or dangerous goods that could be entering countries. This is an area of great concern and a balance should be found between the revenue collection mandate of Customs authorities and their law enforcement responsibility.

The potential time and cost savings produced by streamlining Customs procedures could work to the benefit of everyone involved including dramatically lowering the cost to government of collecting taxes and duties on imported consumer goods. The upcoming revision of the Kyoto Convention is an important opportunity for the WCO and its member countries to at least match the current best practices of national Customs authorities such as those demonstrated in the presentation by Canada on the LVS Programme. Best practices with respect to streamlining Customs procedures should aim to:

- Achieve the lowest possible per package processing cost to the government (the Canadian demonstration illustrated that the cost per package in Canada can be as low as USD 0.05). Additionally, attempting to provide the lowest possible cost to consumers, foreign marketers, carriers and brokers should be an objective.
- Enable foreign marketers to charge consumers all import duties and domestic sales taxes at the time of initial order (that is: a one step, transparent transaction for the consumer).
- Establish mechanisms for consolidated reporting of goods to Customs in advance of arrival; Customs pre-clearance; and the periodic and lump sum payment of taxes and duties by carriers/brokers.
- Ease the process of returning goods allowing consumers to return goods using prompt and simple refund procedures that include the repayment of all taxes and duties. (An issue that will become increasingly important as electronic commerce is used more and more by consumers).
- The use of paperless procedures and extensive or exclusive use of EDI could vastly improve the speed and accuracy of these processes.

To this list, we could add other important principles, such as making Customs work equally well for all carriers by opening up the systems to all and urging OECD Member countries to consider harmonising Customs procedures. For consumers, transparency is an important issue, just as costs and time delays are of crucial importance.

Using the Kyoto Convention revision process, there is an opportunity to move forward quickly on a number of these elements, and all of the stakeholders in the process should respond positively to the invitation extended by WCO to participate more fully in the process.

FINAL ROUNDTABLE CONCLUSIONS

A global marketplace for consumers: simplifying Customs clearance procedures

Conclusions by the Rapporteur

Reasons for streamlining procedures:

- The high cost of shipping parcels internationally, as well as existing delivery delays within the infrastructure, hinder the growth of cross-border trade and, in particular, business-to-consumer electronic commerce.
- National Customs clearance procedures in many instances can contribute to higher delivery costs and, on occasion, to clearance delays which can be a source of inconvenience to consumers.
- The expected growth in volume of shipping tangible consumer goods purchased over open-networks, such as the Internet, highlights the need for Customs authorities to streamline Customs clearance procedures.

Benefits of streamlining procedures:

- Customs procedures form an important element in the protection of society by, among other things, controlling the import and export of restricted and prohibited goods (e.g. illicit drugs, endangered species). Streamlining procedures might release resources that could then be used for these higher priority activities.
- Streamlining procedures may prevent increases in the cost to governments of collecting taxes and duties on goods imported by consumers directly from overseas marketers. As such, it may also prevent increases in accounting costs to businesses and consumers.
- Streamlining these procedures should help to expedite the clearance process of packages, making borders more transparent, and thus improving the quality of the delivery service to consumers.

Approaches to streamlining procedures:

- Customs-to-Customs co-operation in the exchange of information about alternative models and best practices should be encouraged in order to streamline procedures to the widest extent possible. The Canadian Low Value Shipment (LVS) Program is one such model that should be reviewed and promoted; particularly as it benefits Customs authorities, businesses and consumers.
- Communication and consultation between Customs officials and industry representatives particularly distance sellers and public and private carriers should also be promoted.
- The discussions on the revision of the Kyoto Convention provide the opportunity for WCO members to introduce modernised and streamlined Customs clearance procedures and to develop mechanisms for their implementation. The OECD Member countries should be encouraged to adopt simplified procedures at an early stage.
- The *de minimis* levels for low-value shipments should be reviewed and harmonised, wherever possible, to take into account the expected growth of business-to-consumer electronic commerce and the introduction of simplified clearance procedures.
- The best available systems should be open equally to all compliant carriers.
- Additional provisions for best practice should have at least the following elements:
 - * Opportunity for foreign marketers to charge consumers all import duties and domestic sales taxes at the time of initial order -- a one step and transparent transaction for the consumer.
 - * Consolidated reporting of goods to Customs authorities in advance of arrival, thus allowing for the swift clearance of goods.
 - * Periodic (e.g. monthly) and lump sum payment of taxes and duties by carriers and/or brokers, with processes for refunds of duties for returned goods, where appropriate.
 - * Paperless procedures, for example the extensive or exclusive use of EDI.

February 11, 1998

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**A GLOBAL MARKETPLACE FOR CONSUMERS:
SIMPLIFYING CUSTOMS CLEARANCE PROCEDURES**

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Annex 1 – Roundtable Documents

I. World Customs Organization

Excerpts from the Revised International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention)

GENERAL

- Customs shall institute and maintain formal consultative relationships with the trade to increase co-operation and facilitate participation in establishing the most effective methods of working commensurate with national provisions and international agreements.

SPECIAL PROCEDURES for AUTHORIZED TRADERS

(These could apply, for example, to retail suppliers, mail-order companies, private operators, etc.)

- For authorized persons who meet criteria specified by Customs, including having an appropriate record of compliance with Customs requirements and a satisfactory system for managing their commercial records, Customs shall make available special procedures including:
 - release of the goods on the provision of the minimum information necessary to identify the goods and permit the subsequent completion of the final Goods declaration;
 - allow a single Goods declaration for all imports or exports in a given period where goods are imported or exported frequently by the same person;
 - clearance of the goods at the declarant's premises or another authorized place; and
 - use of the authorized persons' commercial records to self-assess their duty and tax liability and, where appropriate, to ensure compliance with other Customs requirements
- Where national legislation provides for approved persons to defer payment of duties and taxes past the due date, it shall specify the conditions under which such facilities are allowed.

USE of INFORMATION TECHNOLOGY

- ❑ Customs shall apply information technology to support Customs operations, where it is cost effective and efficient for Customs and the trading community.
- ❑ New or revised national legislation shall provide for :
 - electronic commerce methods as an alternative to paper-based documentary requirements;
 - electronic, as well as other, paper-based authentication methods; and
 - the right of Customs to retain information for their own use and, as appropriate, to exchange such information with other Customs administrations and all other legally approved parties by means of electronic commerce techniques.

AUDIT- BASED CONTROLS for COMPLIANCE

(These would reduce or replace traditional physical controls)

- ❑ In the application of Customs control, Customs shall use risk management.
- ❑ Customs control systems shall include audit-based controls.
- ❑ Customs shall evaluate traders' commercial systems where those systems have an impact on Customs operations to ensure compliance with Customs requirements.

MUTUAL ADMINISTRATIVE ASSISTANCE

- ❑ The Customs shall seek to co-operate with other Customs administrations and seek to conclude mutual administrative agreements to enhance Customs control.
- ❑ The Customs shall seek to co-operate with traders and seek to conclude memoranda of understanding to enhance Customs control.

II. UK Customs Procedures

Small Consignments Transported by the Post Office or Fast Parcels Operators

1. Packages sent by Public Post Office

a. Revenue Liability

Packages sent from outside the EC are subject to Customs Duty, Excise Duty and VAT as appropriate. There are certain exceptions where no duty or VAT is collected:

- if the goods are worth less than ECU 22 (GBP 18) ; or
- if it is a private gift valued at less than ECU 45 (GBP 36).

If it is a non-commercial package, sent to a private individual, with a value of less than ECU 350 then duty can be charged at a flat rate of 3.5% (VAT is charged at the standard rate).

Packages containing tobacco, alcohol or perfume are liable to customs charges, unless they are gifts, if they exceed the specific allowances e.g. More than 50 cigarettes.

If the value of the goods exceeds ECU 22 but the total amount of duty owing is less than ECU 10 then EC law allows Member States to decide whether or not collect this revenue (Article 868 of the Implementing Regulations applies). Current policy in the UK is that duty of less than ECU 10 **should be** collected and entered into the accounts.

b. Declaration

Packages transported by post into the UK, from outside the EC, must be accompanied by a customs declaration stating the nature, quantity and value of the goods. Two postal Forms, as prescribed by the Universal Postal Union, are used in the UK (these are **not** Customs Forms). They are:

- Form CN22, more commonly known as a 'Green label declaration', should be affixed to **letter** packages (flat mail) containing dutiable goods (the Form CN22 is not appropriate to parcel packages);
- Form CN23, which contains more information to allow customs to calculate the tax, is used for all items of **parcel** post (a package containing goods).

Where the value of any letter package exceeds GBP 270 the sender is obliged to affix the top portion of a CN 22 and enclose a fully completed CN 23. This is optional if the value is less than GBP 270.

Postal packets exceeding GBP 2000 in value require a full entry (C88).

c. Control

The Post Office Act of 1953 gives powers to the Post Office to detain any postal packet :

- suspected of containing dutiable goods, where the duty has not been paid at importation ; or
- which contains prohibited or restricted substances.

Under Article 12 of the Postal Packets Regulations (1986) the Post Office is required to produce to customs all packages containing goods, whether bearing a CN22/23 or not. Customs carry out additional checks to ensure the truthfulness of the declarations.

Customs also carry out checks for prohibited and restricted goods on a target country basis. They will check all packages from countries known to be associated with prohibited or restricted goods e.g. Colombia and drugs. All countries are checked periodically.

It should be borne in mind that a large amount of postal items (such as ordinary letters) are not required to have a declaration nor be presented to customs.

Customs calculate the taxes (duty and VAT) on the basis of the information provided by the sender. If this is insufficient a C160 is sent to the recipient asking for further details. Customs then charges the Post Office for the duty and VAT.

The Post Office then recovers the duty and VAT from the recipient. If the amount is less than GBP 50 it is collected by the postman on delivery. If the amount is more than GBP 50 a card is put through the recipients door and they must collect the package, and pay the duty/VAT, at the sorting office.

d. Liability for the Debt

For postal traffic, the **consignee** shall be considered the declarant and where appropriate the debtor.

e. Returned Goods

If the goods are to be returned, they should be accompanied by the appropriate Form and a claim for repayment of duty, as described in Article 239 of the Code. The claim should be made to the Customs authorities within 3 months.

2. Packages sent by Private Express Carrier

Customs Freight Simplified Procedures (CFSP)

Under the terms of the Community Customs Code, simplified procedures three of the main Fast Parcels Operators (FPOs), UPS, Fed Ex and DHL, are now importing packages using the Community wide **local clearance** procedure.

The FPOs will also continue to use normal procedures, where appropriate, and bulk entries for low value consignments where :

- The consignments are of negligible value (below ECU 22).
- The consignments are of advertising material with a weight of less than 1kg.

a. Pre - Arrival Procedure under CFSP Local Clearance

An order is placed with the FPO to send the goods and credibility checks are performed by the carrier on the information provided.

Both high value and low value (below the ECU 22 *de minimis* limit) consignments are manifested at **individual consignment level**. Documents (where non-dutiable) are manifested at the carriers discretion.

Manifest information is available in the destination country **prior** to the arrival of the goods.

b. Fiscal Control/Anti Smuggling

Customs have direct access to the carriers computer system and are able to carry out any necessary credibility checks.

Anti smuggling controls are applied by targeting via an anti smuggling net embedded in the carriers system.

c. Arrival of Goods

On arrival goods move to the carriers approved premises either by local arrangement, if the premises are airside, or under UK transit, if the premises are landside.

Packages are receipted into the carriers premises where they must remain until customs formalities have been completed.

Prior to removal from the premises the consignments must be declared for local clearance by making entry in the FPOs records. This establishes the taxpoint.

The FPO must make available to Customs, on request, all supporting documentation at the time of entry in the records.

The goods can then be delivered.

d. Supplementary Declarations

A supplementary declaration is required for every consignment declared under this procedure. It must be received by CHIEF (the Customs computerised entry processing system) no later than the fourth working day of the month following the entry in the records.

The duty and the VAT (calculated by CHIEF from the information on the supplementary declaration) is taken from either the FPOs or the importers deferment account on the fifteenth of the month following the entry in the records. The FPO then bills the customer for the service including VAT and duty where appropriate.

e. Post Clearance Action

The FPO is controlled on an audit basis at his premises inland, the regularity of which is determined locally based on risk.

f. Returned Goods

When a package cannot be delivered, through no fault of the carrier, Article 900 of the Community Customs Code Implementing Regulations allows for the duty to be remitted and then goods are subsequently re exported.

3. Options for Further Simplification

a. Self Assessment

To introduce a system for the Post Office along the same lines as the Canadian Low Value Shipment Programme. The Canadians allow commercial carriers to assess and collect taxes on shipments with a value of less than USD 1600 and pay a consolidated amount to Revenue Canada on a monthly basis.

Whereas this would not currently be appropriate for commercial carriers in the UK, as EC law requires the customs authority to calculate the duty and take the appropriate amount from the carriers deferment account, a similar system could be used for the Post Office.

Whereas Customs currently assess the taxes and collect them from the Post Office, we could allow the Post Office to perform an agency function and calculate and collect revenue on shipments up to a certain value, e.g. ECU 800. They would then pay the consolidated amount to Customs each month.

b. Standard Duty Rate

Council Regulation 866/97 currently allows for a standard duty rate of 3.5% to be applied to packages sent to private individuals or goods on travellers baggage with a value not exceeding ECU 350. This could be extended to cover all small packages, the rate of duty could be decreased and the value limit could be increased. This would decrease the administrative burden by removing the need to calculate taxes on the vast majority of small packages.

c. Removal of Nuisance Duty Rate

The 3.5% standard rate may be viewed as a 'nuisance' duty rate costing more to collect than it is actually worth, in which case it could be dispensed with altogether. A zero rate of duty could be introduced for packages up to a certain value, however, VAT would still need to be accounted for.

d. Distinction between Non-Commercial and Commercial Transactions

Introduce a scheme which recognises the difference between private to private, business to private and business to business transactions.

i) Private to private transactions

These should be free of duty and VAT up to a certain value limit. Above this limit the standard duty and VAT rates would apply.

ii) Business to private and business to business transactions

- If the value is below a stated low value ECU limit then no duty or VAT is payable ;
- If the value is above the low value ECU limit but below a second ECU limit then the standard rate of duty and VAT would apply ;
- If the value is over the second ECU limit then duty would be paid at the normal rate and VAT at the standard rate.

III. United States Postal Service

Overview of Postal Customs Clearance Procedures

The United States Postal Service works through the postal administration in each country to which it sends parcels to obtain information about customs requirements from customs authorities in those countries. As is the case in the United States, Customs is a law enforcement agency of the government separate from the postal administration. It is the responsibility of the postal administration to help customers comply with customs procedures in other countries in order to ensure that only permissible merchandise enters and that proper duties are paid on that merchandise.

Postal customs procedures require documentation affixed to the items by the mailer. Information in this documentation relates to contents, value, sender and addressee. Once the parcels arrive in the destination country, postal merchandise is handled directly between the destination country postal and customs authorities.

The United States Postal Service, similar to other postal administrations, has no authority to open parcels or verify contents. Therefore, postal administrations in neither the origin nor the destination countries are able to assume responsibility for the accuracy of customs declarations or to collect fees from senders and pay duties based on such declarations. Merchandise cleared through postal customs clearance procedures may therefore be subject to delays due to verification of documentation, examination of contents and assessment of duties by customs authorities.

Should an issue arise with a particular shipment, the United States Postal Service, as the origin postal administration, must rely on the intervention of the destination postal administration, an additional layer of co-ordination that may make for a less expeditious process. As this process does not normally involve a customs broker in the destination country and does not require an advance assessment of duty, postal merchandise may experience delays in clearing customs because of the process of examination and rating for the duty. The delivering postal administration normally collects all customs duties and fees from the addressee upon delivery and then hands these funds over to customs authorities.

In 1995, the United States Postal Service launched a new specialized product now called Global Package Link (GPL). GPL is an air export parcel delivery service that provides customers an easy way to ship packages internationally to certain countries, which presently include Canada, Japan and the United Kingdom. Customers must meet pre-determined annual volume requirements.

An enhanced feature of GPL is a proprietary software package called the Customs Pre-Advisory System (CPAS). CPAS generates customs documentation for the mailer and may expedite customs clearance in the destination country. CPAS helps speed packages through customs by enabling customs officials in a foreign country to review the contents of the package either electronically, or by reviewing the CPAS generated customs declaration on the package. Although CPAS provides declarations of contents and value of all packages, all parcels are subject to inspection at the discretion of customs agents in foreign countries. In Canada and the United Kingdom, CPAS enables the prepayment of customs duties and taxes by the mailer and saves the consumer from making payment of customs duties and taxes on delivery. We are currently examining the possibility of a data interchange with Japan customs authorities.

GPL has differing levels of service which vary by country. GPL saves USPS customers, and hence consumers abroad, time and money by doing virtually all of the paperwork. Customer mailing information is provided to the U.S. Postal Service through a computer link. All a customer need do is apply shipping labels and the U.S. Postal Service does the rest through CPAS.

Parcels sent through Global Package Link are cleared by customs authorities in the destination country as are all other postal parcels in accordance with their procedures and the customs declaration attached to the package. The U.S. Postal Service has not negotiated any procedure for bypassing customs with any country. Rather, we have developed a service that employs electronic data interchange to speed the customs process. The use of electronic data interchange for this purpose is available to both private and postal carriers.