



**World Customs
Organization**

The impact of E-Commerce on Customs valuation and control

Gael GROOBY

Deputy Director, Tariff and Trade Affairs Directorate

Symposium on E-Commerce and Customs Valuation

15 February 2023

Cross-Border E-Commerce – how are we defining it for the purpose of today's discussion?

All transactions which are effected digitally through a computer network (e.g. the Internet), and result in physical goods flows subject to Customs formalities

The Customs Valuation Agreement



Negotiated during the
Tokyo Round 1973 – 1979,
when the golden age of fax machines was
starting but long before the
“E-Commerce revolution”!

Basic principles of the CVA



- *The Agreement on Implementation of Article VII of GATT 1994*
 - General Introductory Commentary

- Primary basis for valuation of goods for customs purposes should be **the transaction value**;
- Customs value based on simple and equitable criteria consistent with commercial practices
- Valuation procedures should be of general application **without distinction between sources of supply**;
- Hierarchy of valuation methods

- No distinction for goods purchased through E-Commerce – unsurprising as it didn't exist.

“Traditional International Trade”



Mainly B2B

- Consumers buying directly from other countries was relatively rare, international trade was normally business to business.

Usually large-scale

- The cost of shipping and complexities of trading internationally meant it was heavily biased to large companies (manufacturers, wholesalers etc.) and large shipments

Rich in ‘Customs Available Data’

- The paper trail ruled, and Customs powers to inspect documents were usually good; many aspects such as financial transactions and logistics were through a few major, regulated bodies; buyers and sellers were generally identifiable in Customs systems and physically traceable; and the types of paper documentation available to Customs at both the transactional and audit levels was significant.

E-Commerce: changes and impacts

Scale issues

* <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/signed-sealed-and-delivered-unpacking-the-cross-border-parcel-markets-promise>

Volume / Scale



Increasing volume of individual transactions/consignments

The issue of scale is perhaps the major issue posed overall to Customs by E-Commerce.

McKinsey & Company* estimated that in 2020, there were 9.3 billion cross-border orders, and 60 percent of them were intercontinental.

The sheer volume of consignments represents extreme challenges in verification of Customs Value assessments.

* <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/signed-sealed-and-delivered-unpacking-the-cross-border-parcel-markets-promise>

The problems of scale ...



Two different hypothetical scenarios for consignments worth twenty million monetary units coming in during an afternoon

Scenario A	or	Scenario B
20 consignments with average value of 1 million each.		20,000 consignments with average value of 1 thousand each.
Potential overall revenue at risk: 10% - 2 million		Potential overall revenue at risk: 10% - 2 million

Both represent 20 million in trade, but if you have one team of officers available to conduct extra checks and they can check 10 consignments in this time, then under Scenario A, they are checking goods worth 10 million and in Scenario B they can only check goods worth 10 thousand.

Large numbers of small consignments can overwhelm systems relying on human knowledge, expertise and work.

Consumers as importers



Increase in B2C and C2C

More and more private individuals are now becoming “international buyers and sellers”.

UNCTAD estimated that in 2018, before Covid, **THREE HUNDRED AND THIRTY MILLION** people made international online purchases.

Through the pandemic, this grew even more dramatically.

Increasingly, consumers, with little or no knowledge of Customs, are becoming ‘importers’.

Figure 1. Global online shoppers (million), 2016-2018



Source: UNCTAD, based on national data.

Graph obtained from: https://unctad.org/system/files/official-document/tn_unctad_ict4d15_en.pdf

Complexity issues

* <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/signed-sealed-and-delivered-unpacking-the-cross-border-parcel-markets-promise>

Complex intermediaries relationships



A new and evolving range of intermediaries

Many intermediaries can be involved in E-Commerce: various types of platforms; financial service platforms and services; marketing services, including social media and influencers; logistics services, fulfillment centres; and so on ...

This can complicate identifying the relevant transaction parties, relevant costs and point of sale.

New trading models



Varying E-Commerce models

The number of intermediaries also depends on the business model.

Models such as drop shipping, wholesaling/warehousing, private label manufacturing contracts, white labelling, crowd-funding and subscription services all have their own range of required or optional intermediaries.

Each can also have its own range of added costs that should be either added to or deducted from the transaction value.

Intermediate “buyers”



New trading models can also complicate identifying the final sales transaction for Custom value purposes in both B2B and B2C.

Even if there is a direct manufacture/supplier to final buyer relationship, complex chains of intermediate “sales” may exist. Determining if there was an actual transfer of ownership of the goods at the intermediate steps can complicate determining the point of sale for Custom Value.

Personalisation and new pricing models



Goods pricing may depend on what else is bought at the same time or bundled with the purchase of services. The pricing of individual goods in such ‘combined’ pricing models may be opaque.

E-Commerce uses various means of sales promotions which are rarely seen outside of E-Commerce, for example, “flash sales”.

Prices can change multiple times within days, hours or even minutes, depending on demand.

Goods may also be customised or personalised on an ad hoc basis.

Being able to compare products and sales to find like transactions on identical or similar goods is challenging.

Application of alternative valuation methods



Application of alternative valuation methods is usually complicated given that:

- Price may fluctuate rapidly;
- Bundling or customisation may be possible;
- The seller may have no direct involvement in the production or distribution of the goods and hence no knowledge of the breakdown of production or other costs; and
- The value of individual sales may be low, making the work involved in calculating alternative valuation methods for individual transactions unsustainable.

Lack of data and knowledge issues

Often lacking Customs available data



E-Commerce can be data rich BUT is not usually rich in 'Customs available data'

While the types of digital information that E-Commerce generates is usually high, the data routinely provided to Customs is generally lower and Custom access to the appropriate data more difficult.

Knowledge of who the buyers and sellers is often lower and less certain. The financial trail may go through multiple intermediaries and is often less accessible to Customs. The Customs declarations are often “simplified” with less data elements.

Parties without full knowledge



Generally lower levels of importer knowledge of costs relevant to the Customs Value

High use of door-to-door sales, i.e. on delivered duty paid terms, means the importer often has very little information on the cost elements in the price.

Often the ‘seller’ has no relationship with the manufacture, supply and delivery of the goods, they simply relay the order. So they also may have little knowledge of relevant cost elements.

Complexities in obtaining information



All cross-border transactions involve parties in *at least* two countries and can be more.

The business models evolved or increased with E-Commerce, combined with global value chains and the digitalisation of the supply of many intangible inputs, means parties with information relevant to the Custom Value may be in many different jurisdictions.

This further complicates having the right legal provisions and capacity to acquire relevant information in a cost-efficient and effective matter.

Single point of truth often lacking



Difficulties in finding the “whole picture”

Costs that need to be added to or subtracted from the transaction price are often not visible in the sales transaction for Custom Value purposes and may not even be known by the transaction party who bears the responsibility for declaring the goods.

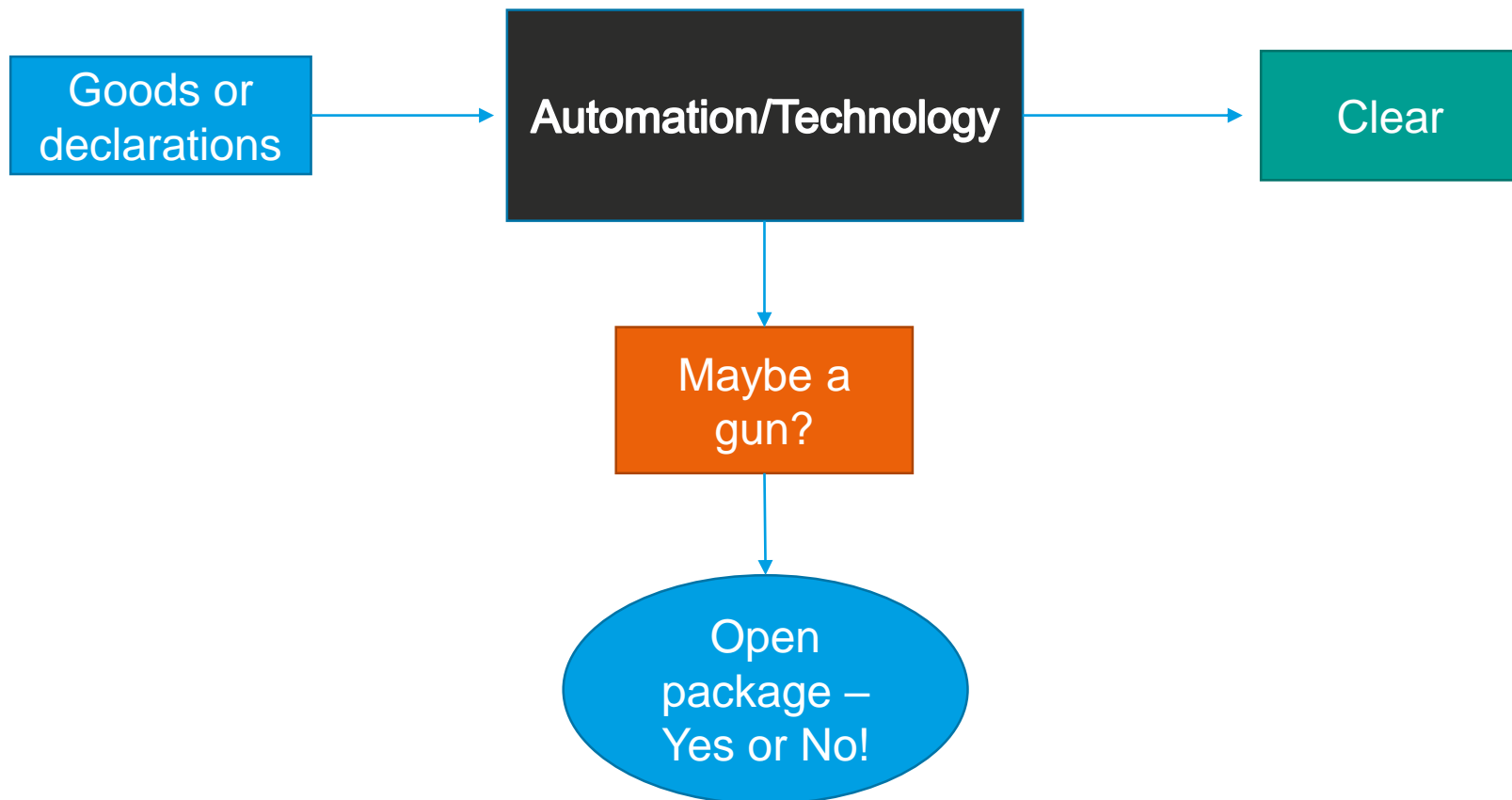
The fragmented information on the transaction held by various intermediaries makes it more difficult to recognize the whole picture of the transaction.

Solutions?

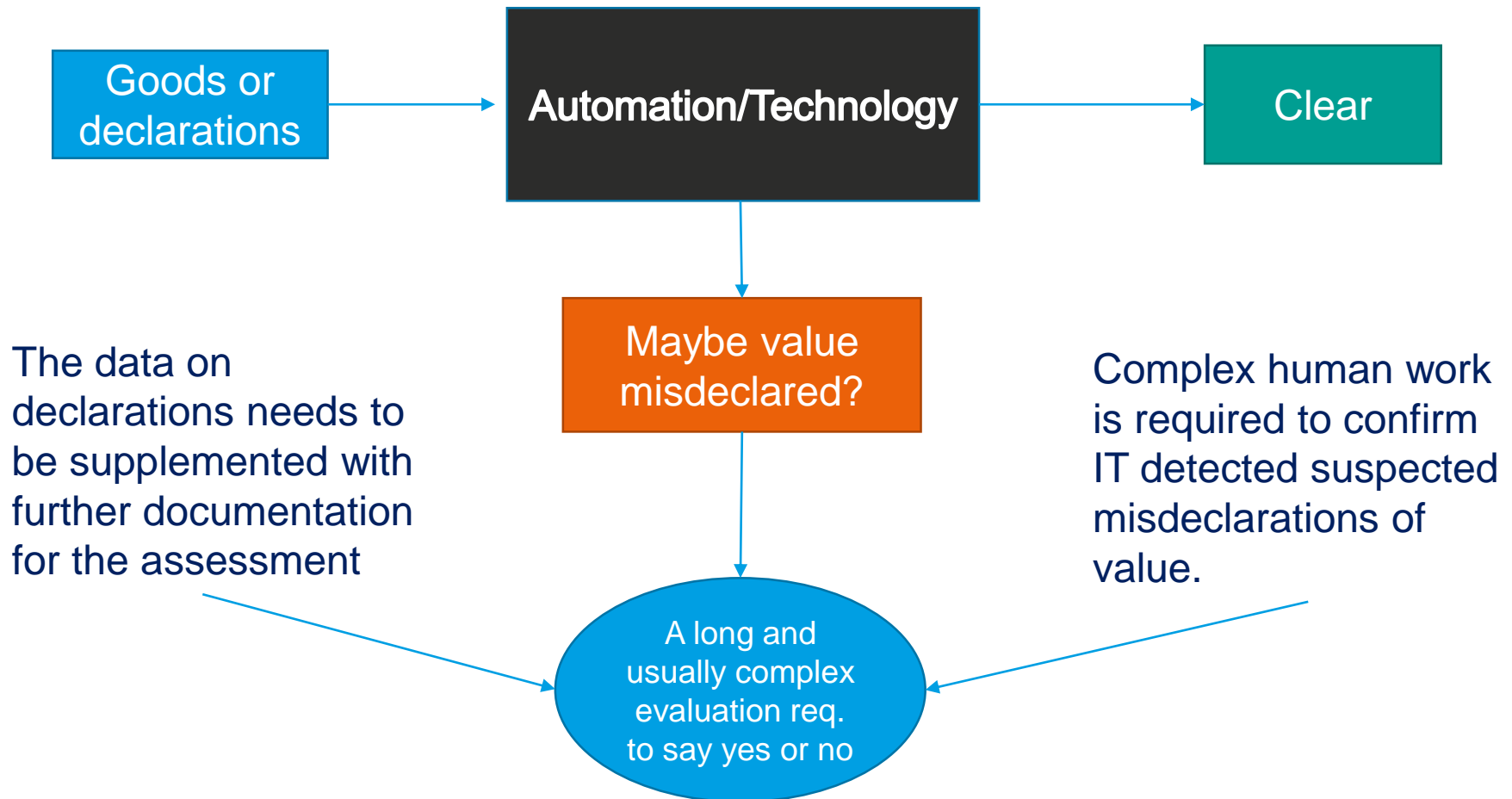
What about Automation?

* <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/signed-sealed-and-delivered-unpacking-the-cross-border-parcel-markets-promise>

The use of technology and automation to address the problem of scale – easier for some issues than others



The situation is different when the evaluation is complex



No “easy” answers arising from IT

* <https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/signed-sealed-and-delivered-unpacking-the-cross-border-parcel-markets-promise>

What should we be considering now?



- How do we quantify the economic effects, including the revenues that would be due, from E-Commerce?
- What are the costs of the collection of revenues on E-Commerce and how does this compare to the costs, both in revenue and broader fiscal and economic impacts, of not collecting?
- How can we balance appropriately between revenue protection, protection of society and facilitation?
- How are any simplified valuation procedures that might be desired or used for facilitation purposes reconcilable with the requirements under the CVA?

What should we be considering now?



- How can we improve the availability of data on transactions to Customs?
- To what degree can valuation assessments be “automated”?
- What data elements would we need to make IT based solutions truly useful?

So, what should we be considering? (cont.)



- What changes in legislation would be needed to enable Customs to effectively collect or automatically receive the needed data from the E-Commerce environment?
- Is it time for governments to consider updates to the WTO CVA to better enable Customs authorities to balance revenue protection and trade facilitation in an affordable and legally sound manner?

Over to you!



Today is not to give answers, it is to raise questions and to start debates.

The minds gathered here include many of the best thinkers on valuation and what happens next depends on everyone being willing to ask the hard questions and to seek the best answers.

Over to you!



**World Customs
Organization**

Thank you

Gael GROOBY

Deputy Director, Tariff and Trade Affairs Directorate



www.wcoomd.org