

E-Commerce- What's in a name?

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E-Commerce is a very popular concept.

If all of the articles and analyses published are accurate, *E-Commerce* will be a key player in helping to catapult micro, small and medium enterprises (MSME) into larger and more prosperous businesses that will significantly contribute to the increase of respective national and global GDP, and support achieving the United Nations Sustainable Development Goals including: reducing poverty, improving health and well-being, and reducing gender and other inequalities around the world.

What is this *E-Commerce*? If you would search the internet for definitions you would find several, for example, dictionary.com says it is “*business that is transacted by transferring data electronically, especially over the Internet*” and investorwords.com says it is “*the buying and selling of products and services by businesses and consumers through an electronic medium, without using any paper documents.*” And, you could easily venture to say that everyone has their own definition of *E-Commerce*.

For some people, the definition of *E-Commerce* is a very personal one, it is about how they buy gifts for family and friends who live in other places, or about how they manage to shop in the late evening, when their work hours do not allow them time to shop during normal store hours, or even about how they shop for goods and services that aren't readily available in their geographic location.

Some Customs managers have a business-related opinion of *E-Commerce*. It relates to the small packages that are processed at the various ports, via either postal or express environments. In this definition, Customs managers have very strong opinions of how this growing volume is impacting the resource allocations they have to make and the enforcement challenges that this phenomenon is imposing on their operational mandates.

We at the World Customs Organization (WCO), together with our partners on the Working Group on E-Commerce - with the new appreciation for the broader opportunities and challenges that *E-Commerce* poses, see *E-Commerce* through a much different lens. We see that *E-Commerce* means many things to many people. This is clearly an important recognition, because this fact colors the data that we are using to measure this thing called *E-Commerce*, and even our basic understanding of the different issues being debated in the many fora that this topic is raised.

If we take either of the two definitions highlighted above, which are by no means the only two available, one would have to consider that *E-Commerce* is perhaps ordering a pizza online, downloading a song, a movie or a book, ordering software, buying airline tickets, booking a hotel, and perhaps even paying for tuition, if you do it online.

There is a huge amount of trade in digital goods and services, which is considered *E-Commerce*, but will not be focus of this article.

Under these definitions, *E-Commerce* is, also, buying physical goods such as clothes, electronics, jewelry, machines, books, and maybe even vehicles.

And now, imagine that these transactions take place across different national borders. This is the *E-Commerce* we will be focusing on in this article.

When *E-Commerce* involves cross-border transactions, a number of great opportunities can be leveraged. For example, customers can buy directly from manufacturers overseas, thereby eliminating some of the intermediaries; the options of available products are significantly wider and more varied; the opportunity to shop across the world, without concern for time of day or day of the week, is now available at the consumers' fingertips; multiple efficient shipping options are generally available; and for MSMEs the opportunity to market their goods across the world with minimal investment is suddenly a reality.

So what is wrong with all of that?

It sounds like a “win-win” proposition.

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There are certainly some huge economic opportunities for consumers and businesses alike in the *E-Commerce* arena. Unfortunately, there are, also, some significant challenges with *E-Commerce*. With regard to trade in physical goods, the world is witnessing an exponential growth in the number of small packages crossing borders as a result of *E-Commerce*. This exponential growth comes from a change in how purchases are being made and how they are being fulfilled by the businesses. Several years ago, shipments of goods were imported via the traditional trade routes, where businesses would ship container loads of goods into a country and fulfill their individual customer orders from stock that had already been declared and entered, and presumably, duties and taxes paid. Over the last several years, and in growing numbers, more and more orders are being fulfilled from the overseas location directly to the customer. Cross-border *E-Commerce* has led to a tectonic shift in the supply chain – where distribution of goods is now taking place prior to the importation, in a departure from the traditional supply chain where the distribution takes place post-importation. This has brought about a tsunami of small packages to the doorsteps of Customs administrations around the world, either in the postal environment or in the express courier environment.

This change in dynamics has had a few other unintended consequences.

Cross-border *E-Commerce* has led to a tectonic shift in the supply chain

In many countries, there are de minimis thresholds that allow low value packages to enter a country with little or no duties or

taxes, and with much more simplified procedures. This has led to clever manipulations by either the shipper or the consumer to avoid the extra charges by splitting invoices, undervaluing the invoices or mis-declaring the items altogether. Another type of manipulation used is classifying the item as something else or claiming a different country of origin for the product to take advantage of better duty or tax rates.

These distortions to the normal trade practices have had an impact on many countries' revenue collection volumes. Some countries around the world are re-evaluating their established thresholds due to the significant implications that the changes brought about by these growing volumes of low value small packages are having on their fiscal revenues. Additionally, and less visible perhaps, is the impact that these de minimis shipments are having on the capture of trade statistics. To the extent that countries provide for no formal or super simplified documentation for the clearance of these shipments, the data capture of these transactions is not always linked to the capture of traditional trade statistics.

One might argue that this is a small number and should not impact global trade statistics. However, even with conservative estimates of *E-Commerce* projections for cross-border Business to Consumer (B2C) revenues in physical goods approaching \$1 trillion in 2017, and *E-Commerce* statistics showing a consistent growth year over year for the last few years of 12-20%, this can result in a very serious distortion of global trade statistics, and ultimately perhaps in GDP calculations.

From a broader macro-economic sense, some of the distortions in the way goods are being sold and imported into the various countries, are also having an impact on the number of brick and mortar retail stores that are maintained by larger chains.

E-Commerce projections for cross-border Business to Consumer (B2C) revenues in physical goods approaching \$1 trillion

To the extent that Value Added Tax (VAT) is collected on imports, including on small low value shipments, one could argue that there should not be a much of a difference. However, if a country either does not collect VAT on imports, as a whole, or on imports below a certain value threshold, the overall impact on tax revenues to the country can be substantial. Additionally, these small packages coming from overseas vendors may place domestic retailers at a significant disadvantage, if they do not have to pay duties or taxes, while the domestic vendors are required to.

Other challenges with this growing trend are the fact that with the fast moving growing volume of small packages, criminals are also looking to capitalize on the legitimate volumes to sneak in their illicit goods through the overworked systems. Customs administrations are finding a significant increase in illicit goods coming in through the postal and express environments.

Some of the illicit goods seized include, drugs, weapons, counterfeit and fake goods, including medicines, wildlife and cultural heritage trafficking and illicit financial flows of currency and other negotiable instruments.

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In addition, there is lack of awareness on various regulatory requirements including data quality among ever-growing stream of individuals and new class of buyers and sellers (about whom government agencies may have limited or no information) which is also presenting various new risks and challenges. This has made the metaphorical “haystack” significantly larger, and has increased the number and different types of “needles” to be found in that haystack.

At this point you are thinking that the author is completely against *E-Commerce*, when the reality is the opposite. *E-Commerce* is here; it’s growing and will continue to evolve. At the WCO, we are partnering with everyone we can, international organizations, private sector representatives, platform sponsors, e-payment representatives, etc. to find ways to support ways to further propel growth of the economic horsepower of *E-Commerce*, while mitigating some of the many challenges that we are seeing across the global supply chain.

The reality is that no one gains in the long term systems that result in tax or duty evasion or provide vulnerable avenues for safety and security risks. No one should expect that *E-Commerce* is an easy way to get around paying what should be paid to national administrations, or to circumvent other regulatory requirements. In fact, *E-Commerce* is a powerful economic driver that can provide market access, support small businesses, and make economies more competitive, provided that governments and private sector work together to come up with smart and practical solutions to enable fast and easy cross border movement of these small low value legitimate shipments, while developing automated ways to target risky shipments to intercept any illicit goods trying to sneak in and capture accurate statistics and data with the growing volumes.

As a first step, in this diffused and more direct *E-Commerce* supply chain, there is a need to create awareness about potential risks and promote compliance to various regulatory requirements by e-sellers and consumers as well as to make information available preferably through a single access point on websites for new and emerging class of buyers/sellers.

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Only then, can *E-Commerce* fulfill the promise of being a “win-win” proposition.