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STUDY ON CUSTOMS DUTY DE MINIMIS

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DE MINIMIS THRESHOLD IN THE EU & THE IMPACT OF ITS REMOVAL

In March 2022, the Wise Persons Group on Challenges Facing the Customs Union proposed measures to improve governance, incentives, and data management for the EU Customs Union.

Recommendation (#7) eliminates the long-standing import duty de minimis exemption.



duty de minimis threshold is the minimum value of goods below which no customs duties are collected

A ZERO DE MINIMIS THRESHOLD VALUE HAS A NEGATIVE IMPACT ON



Customs administration

additional complexity, personnel and time resources required to collect duties from low-value goods



EU consumers

increased admin costs borne by importing firms, increased delivery time due to time-consuming border processing, and limited choice



Trade & Economy

the removal of de minimis could hamper the growth of international trade and be detrimental to economic growth



SMEs

trade compliance costs act as a barrier to enter into new international markets and to their expansion in the existing ones



Economic operators

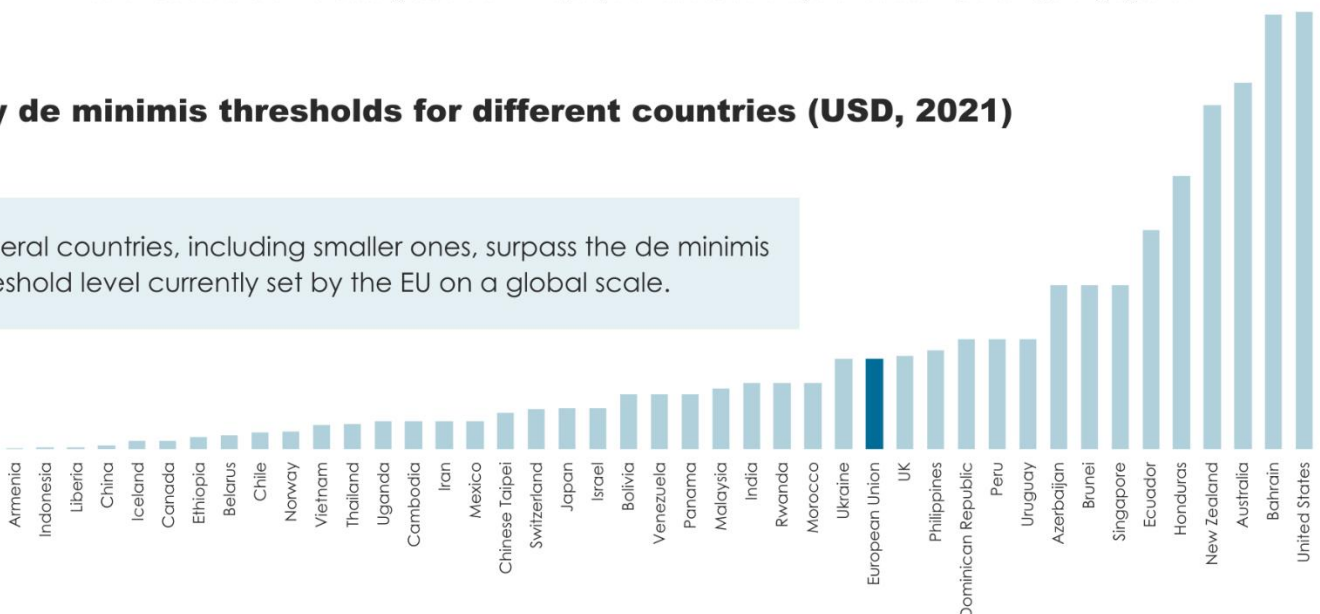
admin tasks for low-value parcels for economic operators*, resulting in increased processing and delivery times

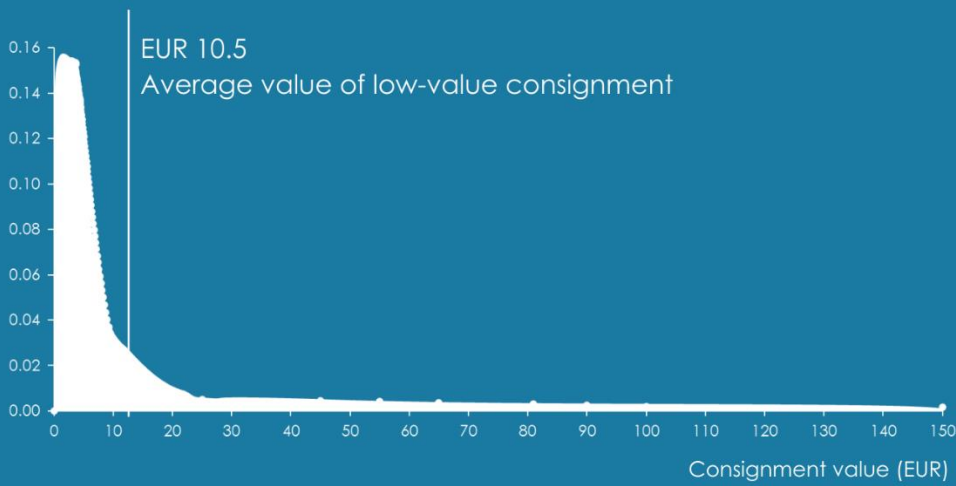
*including parcel and express delivery service providers

Relevant costs to consider when deciding customs de minimis policy are those above and beyond the costs of implementing existing legislation.

Duty de minimis thresholds for different countries (USD, 2021)

Several countries, including smaller ones, surpass the de minimis threshold level currently set by the EU on a global scale.





The average value of a low-value consignment in the EU is approx.

€10.50

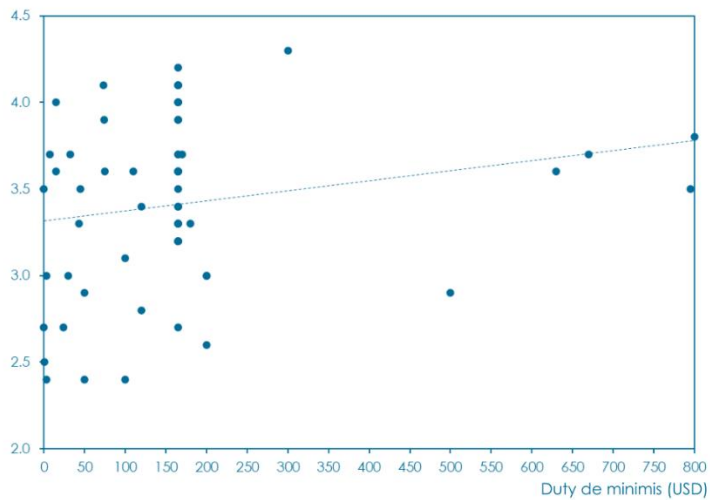
The revenue collected on each low-value shipment is naturally meagre.

Despite being fully responsible of collection costs, EU Member States retain only 25% of the collected customs duties.



Reduction of trade frictions enhances competitiveness

the recent abolition of industrial tariffs in Switzerland is expected to make Swiss firms more competitive by decreasing production costs and making trade ties more efficient



The graph shows the relationship between the Logistics Performance Index (LPI) score (y-axis) and duty de minimis threshold for 60 countries. Higher de minimis threshold values are positively associated with the LPI.

Removing the de minimis duty threshold could hamper EU firms' competitiveness, productivity, and welfare. It could negatively affect EU trade relationships and potentially give incentives to other economies to retaliate.

LOOKING AT ALTERNATIVES THROUGH BEST PRACTICE

INSTITUTIONAL SUPPORT

Global organisations that encourage and support de minimis regimes



REFORMING DUTY COLLECTION ON IMPORTED LOW-VALUE GOODS

WHILE RETAINING A DUTY DE MINIMIS THRESHOLD



VENDOR COLLECTION MODEL

in Australia and New Zealand provides an efficient means of **calculating, collecting and remitting** the Goods and Service Tax (GST) while keeping the costs of collection relatively low.



SIMPLIFIED CLASSIFICATION

and duty rate system in Canada facilitates the **processing of low-value shipments** and virtually eliminates classification mistakes.

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PREFACE

In March 2022, the “Wise Persons Group on Challenges Facing the Customs Union” has issued a package of proposals concerning the Reform of the EU Customs Union. The main arguments backing the reform include protecting EU citizens from non-compliant and dangerous goods, removing from the EU market goods that do not meet European environmental and labour standards, protecting European companies from unfair competition, protecting the EU and Member States’ budgets, and contributing to the Green and Digital transitions.

Amongst several proposals concerning rationalisation, governance, incentives and data management for the EU Customs Union, there is a shortly discussed yet highly impacting recommendation #7 which proposes removing the long-standing import duty de minimis exemption. This removal was then included in the EU customs reform proposal, published in May 2023.

The de minimis is the threshold below which items can be shipped into the EU without customs duty liability (while other liabilities are level with intra-EU trade i.e., VAT and other obligations). While the EU de minimis threshold is currently set at EUR 150 (a level lower than both the old and current US threshold), the EU customs reform proposal would take this down to zero, removing this trade facilitation provision.

This initiative comes only one year after the VAT e-commerce package, coming into force in 2021, abolished the VAT exemption on small value consignments not exceeding EUR 22 and provided a One Stop Shop (IOSS) for extra EU e-commerce intermediaries selling goods to European citizens. Additionally, the 2021 VAT e-commerce reforms introduced a new form of customs declaration in the form of a super reduced dataset (H7 dataset). At the same time, the trade of low-value consignments is interested by the important changes related to the roll out of the Import Control System 2 (ICS2). This new customs pre-arrival security and safety programme mandates to economic operator to declare safety and security data about all goods entering the EU, thus independently by their intrinsic value.

The directly related policy question is thus whether and to what extent this specific proposal of removing the de minimis (not the whole customs reform package) would be impactful for the functioning of e-commerce markets, logistics processes– as well as ultimately for EU consumers.

Our research below is not an evaluation of the above proposal – the research was conducted in Spring 2023 prior to the European Commission’s May 2023 customs reform proposals –, while delivering relevant findings for policymakers interested in the functioning of de minimis thresholds.

From its inception, this study has been designed so to gather, structure and analyse existing evidence in the relevant literature on de minimis – in particular, relative to customs duties. This literature study aims therefore at appraising several relevant aspects for policy makers decision on customs de minimis policy. This study is not a modelling exercise and the empirical measurement of

the extent of any specific additional costs associated with the removal of the customs de minimis is beyond the scope of this study. When considering cost factors established in the literature, we have focused on relevant costs i.e., those above and beyond the costs of implementing existing legislation.

As such, this study is relevant for trade policy effects and global reactions to EU policy developments. Beyond trade stakeholders, this research is also relevant to policy and industry decision makers interested in the postal and delivery sector development transformation towards enhanced and efficient e-commerce – as well as the resulting consumers interests. Finally, an updated understanding of the present-day role of customs de minimis thresholds is highly relevant to customs and tax policy, including the division of labour between EU and national level efforts.

This research project builds on desk research reflecting the most up to date review of the literature and evidentiary sources on the matter of de minimis and provides evidence of the role of the minimis threshold and its impact on trade, competitiveness, and productivity, considering the different actors involved: customs administrations, economic operators, and consumers.

EXECUTIVE SUMMARY

In March 2022, the EC-backed “Wise Persons Group on Challenges Facing the Customs Union” has issued a package of proposals. Amongst several proposals concerning rationalisation, governance, incentives and data management for the EU Customs Union, there is highly impacting recommendation #7 which proposes removing the long-standing import duty de minimis exemption. This removal was then included in the EU customs reform proposal, published in May 2023.

The duty de minimis threshold refers to a minimum value or amount of goods below which no customs duties are collected. As such, de minimis thresholds are relevant trade facilitation provision for low-value items: if the value of the shipment is below the de minimis threshold, it can be cleared without incurring customs duties.

While this de minimis threshold is **currently set in the EU at EUR 150** (a level lower than both the old and current US threshold), **the proposal would take this down to zero**, i.e., remove this trade facilitation provision. This proposal is expected to be highly impactful for the functioning of e-commerce markets and logistics processes, as well as ultimately for EU consumers.

In this report – the research of which was conducted in Spring 2023 prior to the European Commission’s May 2023 customs reform proposals – we assess the role of the de minimis threshold in the EU and its impact on **customs authorities, economic operators, international trade, businesses, and consumers**, relying on the most relevant literature. In doing so, we focus on the incremental impact of the proposed reform, thus on those relevant costs that are above and beyond the costs of implementing existing legislation. Through our desk research and analysis, we find as follows.

De minimis thresholds are prescribed by the World Customs Organization (WCO) Revised Kyoto Convention (RKC) and encouraged by the OECD, and the International Chamber of Commerce (ICC). The removal of de minimis thresholds on duties would have a significant impact on **time to trade, customs administration and economic operators’ increased complexity and costs that are hardly offset by revenue collection**. Ultimately, this additional complexity and associated costs would fall onto businesses and consumers who might suffer significant welfare losses due to higher prices, less choices, and less efficient markets.

Historically, de minimis threshold regimes are designed and intended to **achieve an ideal balance between the costs of assessing and collecting customs duty and the revenue raised**. Digital customs declarations have significantly reduced collection costs and enabled new cost structures, where fixed costs and investments in technological solutions prevail and ongoing variable costs can be reduced, making cost of collection less salient. However, insofar variable collection costs exist, the removal of de minimis threshold would entail additional complexity for **customs administrations**, as collecting duties for low-value goods unavoidably requires additional resources, personnel, and increased time. The additional complexity related to import procedures is particularly relevant if we consider that the revenue collected on each low-value shipment is, by its nature, very low. In the EU, for instance, the average value of low-value consignment is around EUR

10.50.¹ It is also worth noting that, despite being fully responsible of collection, Member States retain only 25% of the collected customs duties. Besides, this study is not a modelling exercise and the empirical measurement of the extent of any specific additional costs associated with the removal of the customs de minimis is beyond the scope of this study.

In addition, removing the de minimis threshold on duties would lead to an increased burden in the customs clearance process and thus in the cost borne by **economic operators** such as parcel and express delivery service providers who would incur more time-consuming administrative tasks for low-value parcels. Increased burdens on customs administrations and economic operators would also result in increased clearance processing times and, subsequently, longer delivery times.

Higher de minimis are generally associated with a better logistics performance, at country level. We find indeed a positive correlation between Logistics Performance Index (LPI), a summary indicator which scores countries on six measures of logistics performance, and the level of duty de minimis. In other words, **countries with higher de minimis thresholds tend to have a better logistics performance.**

De minimis regimes enable imports of low-value items to enjoy customs duty-free treatment, thus expediting border processes and keeping trade costs low. As such, **they facilitate trade** and their removal could hamper the growth of international trade and, consequently, be detrimental to economic growth.

Increased trade frictions **are particularly relevant in the EU context.** Cross-border trade between Member States and countries outside **the EU has in fact been an important driver of development and prosperity in the EU.** The primary role that the EU has in global trade has always come hand in hand with an open trade regime. Removal of de minimis could not only impact imports flows, but also EU exports in the event that large trading partner would retaliate.

Retaining **trade facilitation provisions** such as the de minimis threshold is **essential to domestic firms' competitiveness.** In this sense, the recent abolition of industrial tariffs in Switzerland is exemplary: the reform was motivated by the willingness to decrease production costs and make trade ties more efficient. A series of impact assessment studies examined the effect of the abolition of these tariffs, finding overall welfare gains that could amount up to CHF 860 million.

The impact of the de minimis removal would not affect all firms equally. Higher complexity and compliance costs are **especially important for SMEs** as they cannot capitalize on economies of scale, bargaining power with logistics operators or multiple parcel delivery channels. Trade compliance costs act as a barrier for SMEs to enter into new international markets as well as their expansion in the existing ones. A de minimis regime reduces this cost and thus enhances the scope of internationalisation of SMEs.

The market for cross-border low-value consignments is extremely relevant to EU consumers. According to Eurostat,² in 2022, 10 percent of EU consumers had purchased from a country outside the EU in the previous 3 months. This share has remained relatively stable in recent years.

¹ (European Commission, 2023b)

² (Eurostat, 2023b)

Ultimately, higher trade barriers associated with removal of de minimis threshold results in a **decrease in consumers' welfare**. Increased administrative burden borne by importing firms, increased time to delivery due to time-consuming border processing, or reduced choice are the main channels through which consumers can be harmed.

Globally, **de minimis thresholds have remained stable in recent years**. Among the countries that opted to reform their low-value goods customs regime and keep or increase their de minimis threshold we find the United States, Australia, New Zealand, and Canada. For example:

- **The United States increased their de minimis threshold from \$200 to \$800 in 2016**. This increase was motivated by various ways in which it would streamline administrative processes, reduce their burden on the US government and thereby stimulate the US economy through costs savings and reductions in trade transaction costs.
- **Australia reformed its low value imported goods (LVIG) regime**, removing the Goods and Service Tax (GST) threshold on imported low value goods, **but keeping at AU\$1,000 threshold for duty**. The 2018 reform was accompanied by a redesigned collection model that allows to streamline collection of GST and lowers the administrative burden. New Zealand adopted a similar model and simultaneously increased its de minimis thresholds for customs duties.
- **Canada has adopted a simplified classification and duty rate system** for shipments under 500 Canadian dollars while **retaining its duty de minimis threshold**. The system has had a minimal impact on tariff revenues and has facilitated the processing of low-value casual shipments.

We conclude that evidence from the existing literature and the recent experience of countries which, like the EU, are leading global economies with high exposure to imports from lower cost countries highlight the **role of customs de minimis thresholds as cost-efficient**; furthermore, **their removal could translate into increasing trade frictions**.

The **removal of de minimis threshold** on duties could represent a further **constraint** to the **competitiveness** and **productivity of firms in the EU** and be **detrimental** to the **welfare** of its **citizens** and **businesses**. Furthermore, removing this threshold would create a unilateral trade barrier that could indirectly hamper the ambitions of the European Union of being “one of the most outward-oriented economies in the world”³ and could potentially give incentives to other economies to move backwards from trade liberalisation. Given the EU’s success in tapping into global markets via its export-oriented firms and industries, this effect constitutes a poignant factor for further policy considerations by stakeholders vested in taxation, trade, and logistics policies.

³ (European Union, 2023)

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1 INTRODUCTION

E-commerce trade in the EU has shown steady strong growth in recent years, and its expansion was accelerated by the COVID-19 pandemic. Total e-commerce purchases have grown constantly since 2016, exhibiting an average compound annual growth rate (CAGR) of 17.7%⁴. In the same period, imported e-commerce⁵ has grown even faster (the CAGR was 19.5%) and the proportion of e-commerce purchases which are imported has increased.

Increased cross-border trade translates into a higher number of small packages being processed at the EU border. From July 2021 to June 2022, more than 1.3 billion low-value goods (goods with intrinsic value not exceeding EUR 150) were delivered to the EU⁶. With cross-border shipments on the rise, customs policy ensuring efficient and simplified border controls has become a more salient and relevant issue to EU citizens and businesses. In addition, Brexit, Covid-19 pandemic, and the subsequent supply-chain disruptions have posed a considerable challenge to the EU Customs Union.

To address these challenges, in March 2022, the EC-backed “Wise Persons Group on Challenges Facing the Customs Union” has issued a package of proposals. Amongst several proposals concerning rationalisation, governance, incentives and data management for the EU Customs Union, there is a highly impactful recommendation #7 which proposes removing the long-standing import duty de minimis exemption. This removal was then included in the EU customs reform proposal, published in May 2023.

While this de minimis threshold is currently set at EUR 150 (a level lower than both the old and current US threshold), the proposal would take this down to zero, i.e., remove this trade facilitation provision. This proposal would be highly impactful for the functioning of e-commerce markets and logistics processes, as well as ultimately for EU consumers.

In this report, we assess the role of the de minimis threshold in the EU and its impact on international trade, businesses, and consumers, relying on the most relevant literature. Moreover, we present evidence of how de minimis thresholds work in other developed countries that are subject to a high degree of import penetration of low-value goods from third countries.

In Chapter 2 we provide some definitions and background on the concept of duty de minimis and on the introduction of the de minimis threshold in the EU.

In Chapter 3 we review the most relevant literature and present evidence on the role of the de minimis threshold and its impact on trade, competitiveness, and productivity, considering the different actors involved: customs administrations, economic operators, businesses and consumers.

Lastly, in the third Chapter 4 we present the experience of other relevant developed countries focusing on the United States and Australia, which have recently reformed their de minimis regimes.

⁴ (Euromonitor International, 2023)

⁵ Imported e-commerce refers to trade that is imported into any EU Member State from another Member State or from outside of the EU.

⁶ (European Commission, 2023b)

2 THE RATIONALE BEHIND THE INTRODUCTION OF DE MINIMIS THRESHOLD

2.1 The concept of de minimis threshold and the trade-off faced by customs authorities

The duty de minimis threshold (de minimis threshold, hereafter) refers to a minimum value or amount of goods below which no customs duties are collected. As such, de minimis customs regimes facilitate import of low-value items: if the value of the shipment is below the de minimis threshold, it can be cleared without incurring customs duties. Indeed, historically, reducing complexity for low-value consignments was the main rationale for the introduction of the de minimis threshold.

When determining the appropriate customs policy, among other relevant policy considerations⁷, customs authorities are faced with the trade-off of protecting the revenue raised with customs duties and minimising the costs of their collection. As such, they must balance safeguarding the efficiency of the tax administration with avoiding undue compliance burdens that could increase collection complexity, its associated costs and delivery times to businesses and consumers.

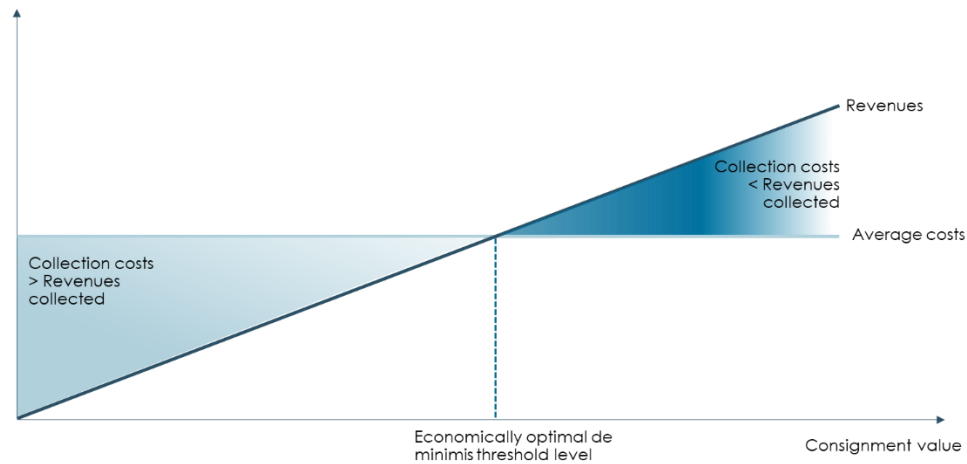
Figure 2 illustrates the basic intuition of cost effectiveness. The average cost of collection can be considered as invariant to the consignment's value. In other words, the average cost of collection, which includes fixed costs (e.g., costs of setting up software systems, establishing internal processes, training staff, or purchasing and installing physical capital) and variable costs (e.g., manual handling and inspection of goods, risk management and screening, authorities' interactions with customers and intermediaries, documentary compliance, etc.) does not change with the value of the imported good. On the other hand, the revenue collected, as the customs duty is generally a percentage of the intrinsic value of the consignment, increases with the value of the good. As illustrated in Figure 1, insofar there are variable collection costs, the economically optimal de minimis threshold is higher than zero.

⁷ It must be noted that cost effectiveness is only one of the mechanisms at play when assessing the removal or introduction of de minimis thresholds. Notably, other relevant rationales such as trade openness, firms' competitiveness and consumers welfare need to be assessed and considered (see Sections 3.3, 3.4, and 3.5).

Figure 1

The cost of collection is invariant to the value of the imported good, while revenues collected increase with the value of the item

Revenue and cost per item



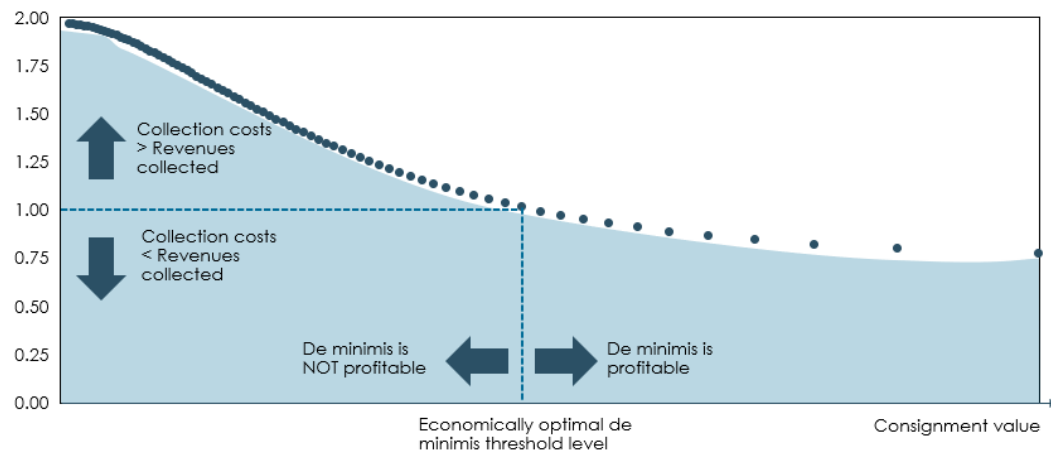
Note: Illustrative. The graph illustrates the theoretical mechanism explaining the rationale for setting a de minimis threshold and does not take into account other relevant considerations concerning trade frictions, firms competitiveness and consumer welfare.

Source: Copenhagen Economics

Figure 2 depicts the collection cost to revenue ratio at different levels of consignment values. When the ratio is higher than 1, then collection costs are higher than revenue collected, and consequently, values of the ratio lower than 1 suggest collection costs are lower than potential revenues. For items of very low value, the collection to cost ratio is relatively large due to the low intrinsic value of goods and thus potential revenue. As the value of imported goods increases, the potential revenue per item increases, which improves cost effectiveness. Thus, we can interpret an ideal de minimis threshold as the “indifference point” at which collection costs equal the revenues collected. For items whose value is higher than the indifference point, collecting duties is profitable, i.e., revenue collected is higher than collection costs.

Figure 2
The economically optimal de minimis threshold level achieves an ideal balance between the overall costs of collection and total revenue raised

Collection cost to revenue ratio



Note: Illustrative The graph illustrates the theoretical mechanism explaining the rationale for setting a de minimis threshold and does not take into account other relevant considerations concerning trade frictions, firms competitiveness and consumer welfare.

Source: Copenhagen Economics

De minimis threshold regimes are thus historically intended to achieve an ideal balance between the costs of assessing and collecting customs duty and the revenue raised. The underlying principle of the establishment of de minimis customs regimes is that it is counterproductive to impose a duty that is more expensive to collect than the revenue of the duty itself. This principle has been long advocated by international organisations like the OECD, the World Customs Organization (WCO), and the International Chamber of Commerce (ICC) and further emphasized by national customs administrations as the main rationale for the introduction or increase of the de minimis threshold in a number of developed countries, like the United States, Australia, and New Zealand (see Chapter 4).

However, cost efficiency is not the only rationale invoked for the introduction or increase of the de minimis thresholds. For instance, in its most recent reform, the United States motivated the increase of the de minimis threshold with the stated objectives of streamlining administrative processes, reducing their burden on the US government and thereby stimulate the US economy. Most notably, the US Congress stated that raising the de minimis threshold of the United States has also the ambition of encouraging other countries to follow the US' example and strive towards an improved trade facilitation (see Section 4.1).

2.2 De minimis regimes are supported and encouraged by several international organisations

The introduction of de minimis regimes to enhance simplicity of customs and facilitate movements of goods has gathered consensus and support from the most relevant international organisations. The World Trade Organization (WTO), the OECD, the WCO, and the International Chamber of

Commerce (ICC) have all historically recommended the adoption of de minimis thresholds and the WCO Revised Kyoto Convention (RKC) embraces this approach.

The Revised Kyoto Convention (RKC) by the WCO, which entered into force on 3 February 2006, called for customs administrations to set a minimum value or minimum amount of duties under which no duties or taxes shall be collected. Article 4.13 provides that "National legislation shall specify a minimum value and/or a minimum amount of duties and taxes below which no duties and taxes will be collected."⁸ While this rule does not prescribe the amount nor does it strictly impose a relevant standard, it underlies all national customs administrations regulatory provisions around de minimis thresholds.

In June 2022, the WCO published a Cross-Border E-Commerce Framework of Standard⁹ that takes into consideration the growth of e-commerce and its impact on customs authorities. The report acknowledges that the growth of trade in goods from e-commerce, particularly on a large number of relatively low-value shipments, is presenting significant challenges to customs authorities. The Framework remarks that one of the core objectives of customs administration is ensuring fair and efficient revenue collection.

The International Chamber of Commerce (ICC) defines the processing of low-value and low-risk shipments at the border as "a significant barrier to international trade"¹⁰ and advocates for setting a global de minimis value. Increasing the de minimis value threshold, according to the ICC, "will generate net economic benefits by refocusing public revenue collection on more efficient revenue sources, ultimately enhancing customs efficiencies."

The provision of a de minimis shipment value is also encouraged by the WTO Trade Facilitation Agreement (2017). In its Article 7.8.2(d), it provides that Member States shall "provide, to the extent possible, for a de minimis shipment value or dutiable amount for which customs duties and taxes will not be collected, aside from certain prescribed goods"¹¹.

The OECD has emphasized the role of an appropriate de minimis threshold as a trade facilitation provision on various occasions. In two recently published reports¹², the OECD highlights how removing de minimis threshold is "likely to be counter-productive", with customs authorities having to control more consignments and creating secondary knock-on effects on other functions. In fact, increasing controls on low value imported goods might result in reduced capacity to carry out other critical border protection and trade facilitation functions.

Finally, the OECD also investigated the role of de minimis thresholds in relation to the rise in e-commerce. In its report "Measuring the Digital Transformation: A Roadmap for the Future"¹³, it underlines how increased cross-border trade has made de minimis threshold increasingly important, especially for Small and Medium Enterprises (SMEs) and individuals buying online. The OECD argues that efficiency and management of customs procedures are particularly salient as trade costs can represent a sizeable share of the value of small consignments.

⁸ (WCO, 2006)

⁹ (WCO, 2022)

¹⁰ (ICC, 2015)

¹¹ (WTO, 2017)

¹² (OECD, 2019b) and (OECD, 2022)

¹³ (OECD, 2019a)

2.3 The introduction of the de minimis threshold in the EU

Against this background, the European Union adopted a de minimis threshold as a key component of its customs policy, aiming at establishing an efficient and streamlined collection mechanism for low-value shipment processing.

The de minimis on import duties was first introduced on 28th of March 1983 as part of a regulation setting up a community system of reliefs for customs duty. The Council regulation (EEC) No 918/83¹⁴ set out those cases in which relief from import and export duties shall be granted. Article 27 of the said regulation prescribed that consignments of “negligible value dispatched direct from a third country to a consignee in the Community shall be admitted free of import duties.” The threshold was then set at ECU¹⁵ 10 per consignment.

In 1991 the Council Regulation (EEC) No 3357/91¹⁶ amended the 1983 regulation and raised the threshold to ECU 22. The value limit was increased further in 2008. The Council Regulation No 274/2008¹⁷ established that the value limit of ECU 22 shall be replaced by EUR 150 stating that “the value limit of ECU 22 set out in Article 27 of Regulation (EEC) No 918/83 has not been increased since 1991, whereas at the same time customs duties have been significantly reduced or even abolished. Accordingly, it is appropriate to increase the value limit for consignments of negligible value.”

In order to codify the several amendments to the Council Regulation (EEC) No 918/83, in 2009 the EU issued the Council Regulation (EC) No. 1186/2009¹⁸ setting up a Community System of Reliefs from customs Duty. As of today, the EU de minimis threshold is thus prescribed by Article 23 of the 2009 Regulation. Article 23 indicates that “[...] any consignments made up of goods of negligible value dispatched direct from a third country to a consignee in the Community shall be admitted free of import duties. For the purposes of paragraph 1, ‘goods of negligible value’ means goods the intrinsic value of which does not exceed a total of EUR 150 per consignment”¹⁹.

This measure is in line with the EU’s trade policy objective of reducing the burden on both customs administrations and economic operators, including parcel and express delivery service providers.

¹⁴ (European Economic Community, 1983)

¹⁵ The European currency unit, abbreviated as ECU, was the former currency unit of the European Communities, from its adoption on 13 March 1979 (replacing the 'European Unit of Account') to its own replacement by the euro on 1 January 1999, at a ratio of 1:1. The ECU was composed of a basket of currencies of the European Communities Member States and it served as the standard monetary unit of measurement of the market value/cost of goods, services, or assets in the European Communities, thus constituting the cornerstone of the European Monetary System (EMS) (Eurostat, 2023a)

¹⁶ (European Economic Community, 1991)

¹⁷ (European Union, 2008)

¹⁸ (European Union, 2009)

¹⁹ Article 24 precises that this relief does not apply to alcoholic products, perfumes, toilet waters and tobacco or tobacco products.

Box 1 EU de minimis threshold definition unpacked**Intrinsic value**

The definition of "intrinsic value" is provided in Article 1 (48) Delegated Regulation (nr. 2015/2446). Intrinsic value refers to:

- a) for commercial goods: the price of the goods themselves when sold for export to the customs territory of the Union, excluding transport and insurance costs, unless they are included in the price and not separately indicated on the invoice, and any other taxes and charges as ascertainable by the customs authorities from any relevant document(s);
- b) for goods of a non-commercial nature: the price which would have been paid for the goods themselves if they were sold for export to the customs territory of the Union.

Consignment

A definition of the term "consignment" is provided in the Paragraph 1.3.2 of LVC Guidance Document:

'As regards the term "consignment", the goods dispatched simultaneously by the same consignor to the same consignee and covered by the same transport contract (e.g., house airway bill, \$10 barcode) shall be considered as a single 'consignment'.

Consequently, goods dispatched by the same consignor to the same consignee that were ordered and shipped separately, even if arriving on the same day but as separate parcels to the postal operator or the express carrier at the destination, should be considered as separate consignments. In the same vein, goods covered by the one order placed by the same person, but dispatched separately, should be considered as separate consignments.'

3 DE MINIMIS THRESHOLDS PLAY A KEY ROLE IN FACILITATING TRADE AND ENSURING VALUE TO BUSINESSES AND CONSUMERS

Digital transformation has enabled new cost structures, where fixed costs and investments in technological solutions prevail and ongoing variable costs can be reduced. Better collection models employing advanced technologies generally minimise operating costs. However, some ongoing variable costs remain in place. Manual handling, risk management and screening, authorities' interactions with customers and intermediaries require staff and time across multiple organisations.

Insofar as these variable costs exist, de minimis thresholds ensure not only reduced complexity and monetary savings related to a reduction in compliance and transactions costs, but also time savings, as time-consuming processes are avoided. A large administrative burden, high costs, and time-consuming processing activities are some of the main reasons the de minimis was put in place to begin with and why similar trade facilitation policies have been introduced across the world.

Hence, the removal of de minimis levels is likely to increase the complexity and costs across the entire supply chain for online sales of low value physical goods. Ultimately, if de minimis thresholds were removed, a large share of this additional administrative burden and its relative costs would be passed on towards consumers. In the next paragraphs, we will investigate the impact of de minimis thresholds on a broad spectrum of stakeholders starting with customs authorities and economic operators. We will then present evidence on the role of the de minimis threshold as a trade facilitation measure and consider its impact on businesses and end-consumers.

3.1 Removal of de minimis thresholds increases the burden of customs administrations

De minimis thresholds deliver relevant benefits in terms of costs and time savings to customs administrations. The automation of border-crossing and customs clearance procedures has allowed to bring down collection costs significantly over the years²⁰. However, the formalities involved in cross border trade are still high and cumbersome. The collection of customs duties on low value items is costly for customs authorities, as it requires additional resources, personnel, and increased time resources. In addition, increased complexity results from processes such as tariff classifications or rules of origin.

Additional workload and costs related to import procedures are particularly relevant if we consider that the revenue collected on each low-value shipment is, by its nature, very low. In the EU, for instance, the average value of low-value consignment is around EUR 10.50²¹. Assuming that imported low-value goods distribute across the entire range between 0 and 150, such a low average value suggests that the de minimis threshold applies mostly to goods with an intrinsic value well below the threshold (Figure 3 provides an illustrative example of an exemplifying distribution of low-value consignment in the EU considering an average value of EUR 10.50).

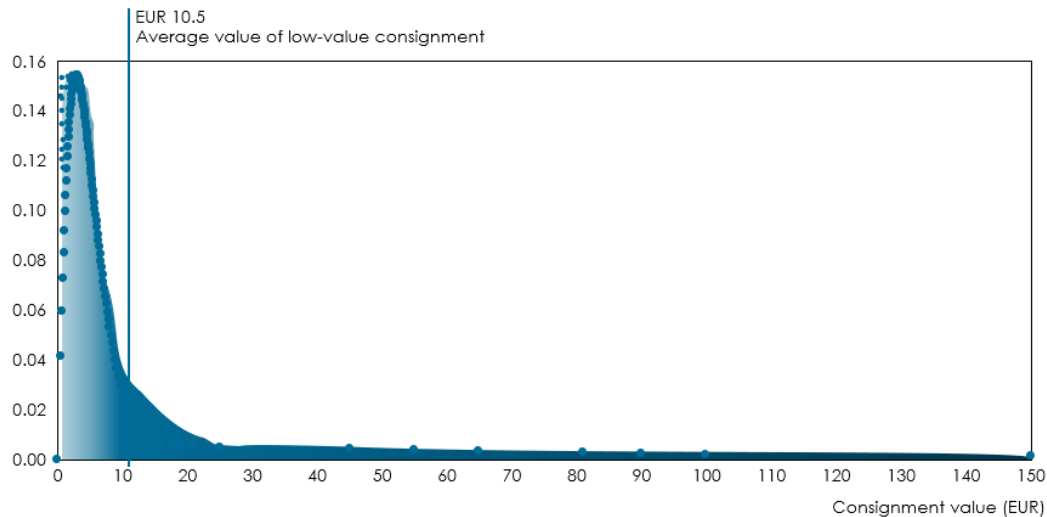
It is also worth noting that, despite being fully responsible of collection, Member States retain only 25% of the collected customs duties, while the remaining 75% go directly to the EU budget. As put forward by a recent report published by the European Parliament,²² this system could create a disincentive in tackling frauds (see Box 2). The report states that: “the national authorities currently lack the incentive to carry out more complex or costly recovery operations. The current system creates even a disincentive, as identification of a fraud scheme by national authorities may start an EU investigation into the effectiveness of that authority and bring along penalties.” Additional administrative burden on already loaded customs authorities could represent a challenge rather than an opportunity for increased revenues Member States.

²⁰ (WTO, 2022)

²¹ (European Commission, 2023b)

²² (European Parliament, 2019)

Figure 3
Illustrative distribution of low-value consignments in the EU
 Distribution of low-value consignments



Note: Illustrative, consistent with the average value of EUR 10.50 reported by European Commission statistics²³

Source: Copenhagen Economics

Customs and tax administrations consider the trade-off between duty collection and administrative complexity as a high-priority aspect in the design of adequate customs policies. Simplification of administrative burden is, for instance, at the heart of the recent abolition of industrial tariff in Switzerland (see Box 4 for more details). In the assessment report prepared by Moser and Werner²⁴, reduction of administrative effort in customs clearance is said to deliver higher competitiveness and lower costs to Swiss businesses and consumers. Additionally, the OECD²⁵ recently advised the Asia Pacific region on the design and implementation of customs clearance processes, indicating that “a solution that simply removes the low-value exemption is not the answer. Such a solution without supporting measures is likely to be counterproductive, with customs authorities having to control more consignments and creating secondary effects for other functions”. Indeed, a key driver for several jurisdictions in applying simplified registration and compliance models and digital platform liability is to free up customs resources and allow these authorities to focus on other critical functions, such as:

- anti-fraud activities
- addressing product safety and intellectual property violations; and
- supply chain security.

On this last point, it must be noted that the removal of the de minimis threshold would have no impact on enhancing safety and security of goods shipped to the EU, as this is already ensured by the

²³ (European Commission, 2023b)

²⁴ (Moser & Werner, 2015)

²⁵ (OECD, 2022)

Import Control System 2 (ICS2). This new customs pre-arrival security and safety programme mandates to Economic Operator to declare safety and security data about all goods entering the EU, thus independently by their intrinsic value.

Box 2 There is no evidence that changes in de minimis deliver a significant reduction in frauds: the experience of Australia, New Zealand, and the US show that other measures can be more efficient

An argument that is often raised in relation to the setting of a particular threshold is that it encourages noncompliance by traders (i.e., traders might engage in 'under-invoicing', 'split shipments' and other forms of valuation fraud to avoid customs formalities and the payment of duties and taxes) and an increase in illicit transactions of prohibited or illegal goods.

However, there is no empirical evidence that increasing de minimis thresholds on customs duties can support customs authorities in the prevention of frauds and illicit transactions. Empirical research by Pope, Sowiński and Taelman (2014)²⁶, found there exist no link between the duty and import tax de minimis level for the EU and the undervaluation practices executed by foreign traders. Moreover, a report published by the European Parliament²⁷ in 2019, highlighted that the customs gap (i.e., the difference between the duties collected and duties that are legally due) in the EU is currently not measured, and, among the multiple recommendations put forward to tackle customs fraud, the report does not mention or refer to reforms to the de minimis threshold.

On the other hand, evidence from Australia, New Zealand and the United States suggests that other measures can be efficient in tackling these issues.

For instance, the 'vendor collection model' adopted in Australia and New Zealand (see Section 4.1) allows to retain a high threshold for duty while simplifying the collection of Goods and Service Tax (GST) on all low value goods. The system places the responsibility for assessing, collecting, and remitting the tax on foreign suppliers. In practice, vendors are liable for GST on low value imported goods sold to an Australian consumer (without the involvement of customs authorities) and must provide relevant information to ensure that the appropriate amount of GST is collected on relevant transactions (including its value).

In a later assessment of the effectiveness of the low value imported goods (LVIG) regime, the Board of Taxation maintained that:

"The examples of potential non-compliance given to the Board involve false declarations and fraud or evasion. The Board observes the range of compliance strategies introduced by the ATO with respect to monitoring compliance on the LVIG regime currently appear to be sufficiently administered with respect to detection risk and maintaining an efficient system."²⁸

The Australian Industry Commission had reached a similar conclusion in 2005, when evaluating raising the de minimis threshold to AU \$1,000, concluding that the "risk of increased evasion is likely to be a minor problem."²⁹

²⁶ (Pope, Sowiński, & Taelman, 2014)

²⁷ (European Parliament, 2019)

²⁸ (Australian Government. The Board of Taxation, 2021)

²⁹ (Hufbauer & Wong, 2011)

In the United States, as opposed to the EU, the de minimis threshold applies to a shipment of products imported by one person in a single day. Such provision allows to avoid “split-shipments”, as they will not qualify for de minimis if they exceed the threshold cumulatively.

Moreover, on illicit transactions, the Customs and Border Protection (CPB) has recently extended the expansion of the Section 321 Data Pilot³⁰. The Section 321 Data Pilot is a public-private partnership that allows the agency to partner with private sector supply chain actors to identify and target high-risk shipments for inspection while expediting clearance of legitimate trade flows. Additionally, statistics from the CBP on de minimis shipments for the years 2018-2021³¹ show that de minimis shipments do not contribute significantly to the flow of illegal goods entering the United States: in 2021, just over two in every 10,000 de minimis shipments were either abandoned, returned to the sender, or seized due to the goods being illegal.

3.2 Removal of de minimis thresholds increases the burden of economic operators

Removing the de minimis threshold on duties leads to a more time consuming and constraint process for economic operators such as parcel and express delivery service providers. Economic operators charged with the logistics of inbound parcels would incur burdensome and complex administrative tasks for low-value consignments, which often require significant resources that are outside their core business. This includes, for instance, the handling of bad debt resulting from shipment abandonment and good returns.

In de minimis regimes, supply chain economic operators benefit from simplified procedures in import consignments. Some empirical studies have attempted to quantify the economic gains of increasing the de minimis threshold for economic operators. Hufbauer and Wong from the Peterson Institute for International Economics³² estimated that it takes 0.15 hours (9.2 minutes) for handling the red tape of one consignment clearance. Following an opportunity cost logic, and assuming that the costs incurred by this work would be saved, these savings would amount to \$56 million annually (time multiplied by hourly wage) from reduced red tape and processing (\$32 million for express firms and \$24 million for the US Postal service). Latipov et al. (2017)³³ adopted a similar methodology. They argued that increasing the de minimis threshold in Canada would save consumer and businesses \$143 million from no longer paying brokerage fees (or courier handling costs).

3.3 De minimis thresholds facilitate trade

Several international agreements and national legislations refer to the de minimis threshold as a trade-facilitating provision. In practice, de minimis regimes enable imports of low-value items to enjoy customs duty-free treatment, thus expediting border processes and keeping trade costs low.

Historically, international organisations, first with the General Agreement on Tariffs and Trade (GATT, 1947), and then with the World Trade Organisation (1995) have favoured an approach based

³⁰ (Customs and Border Protection, 2023)

³¹ (Customs and Border Protection, 2022)

³² (Hufbauer & Wong, 2011)

³³ (Latipov, McDaniel, & Schropp, 2017)

on “the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce”³⁴. Most importantly, this objective aimed at promoting economic growth and raising standards of living.

De minimis thresholds are among the trade facilitation provisions cited by the WTO Agreement on Trade Facilitation³⁵. Moreover, the ICC considers the processing of low-value and low-risk shipments at the border as “a significant barrier to international trade”³⁶. Indeed, de minimis thresholds enable low transactions costs, higher speed, and predictability, that are all ingredients to a good international trading system. As such, their removal can be interpreted as the introduction of a trade barrier.

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Reducing the red tape on trade has the potential to significantly reduce time and money needed to keep supply chains moving

Source: (Horwitz, 2022)

There exists a broad economic literature³⁷ demonstrating how the reductions in tariffs and quotas have prompted dramatic growth in trade over the past seven decades. However, tariffs are not the only barriers to trade. Frictions associated with increased logistics costs, time and money costs incurred to clear onerous regulations are other relevant deterrents on trade openness and growth.

According to Hufbauer and Wong³⁸, enhanced trade facilitation, broadly defined as improvements in services infrastructure, port efficiency, customs environment, and regulatory environment, could deliver an annual increase of up to \$400 billion in global exports of manufactured goods. Other studies, focusing on time to trade, estimated that each additional day in transit could “reduce the probability that a country will export to the US by 1% (all goods) to 1.5% (manufactured goods)”³⁹; Djankov, Freund and Pham find that “... a 10% increase in time reduces exports of time-sensitive manufacturing goods by more than 4%, all else equal”^{40,41}.

Most of the literature on the impact of trade facilitation on trade flows consider a broad range of trade facilitation measures, such as logistics efficiency, simplification and harmonisation of documents, the streamlining of procedures, and the use of automated processes. Some studies specifically delved into the impact of raising de minimis thresholds on trade. Holloway and Rae (2012)⁴² for instance, focused on the effects of raising de minimis thresholds in six APEC countries, and

³⁴ (GATT, 1947)

³⁵ (WTO, 2017), Trade facilitation covers the full spectrum of border procedures, from the electronic exchange of data about a shipment, to the simplification and harmonisation of trade documents.

³⁶ (ICC, 2015)

³⁷ See for instance (IMF, 2001) or (Hufbauer & Wong, 2011)

³⁸ (Hufbauer & Wong, 2011)

³⁹ (Hummels, 2001)

⁴⁰ (Djankov, Freund, & Pham, 2010)

⁴¹ To our knowledge, despite the time passed since publication, these remain the latest available empirical estimates on the cost of time to trade.

⁴² (Holloway & Rae, 2012)

found overall large net benefits in terms of resource savings in government administration and business compliance. They conclude by stating that “All six economies would realise a net benefit from raising their de minimis threshold, no matter how small the increase”.⁴³

Less goods systematically stopped and delayed at the border imply reduced complexity, cost, and time to clear shipments. In turn, these benefits help to mitigate further delays and backlogs and avoid unnecessary burdens across global supply chains. Accordingly, the removal of the de minimis threshold would have a twofold adverse impact on trade facilitation, entailing both an increase in i) tariffs for low-value goods and ii) in processing and delivery time. This would in turn result in a higher administrative workload and increased personnel costs for all imported goods (see sections 3.1 and 3.2).

Higher de minimis thresholds would thus favour international trade through multiple channels related to lower complexity and lower costs. Indeed, other than direct effects on trade, higher de minimis thresholds are likely to entail other indirect pro-competitive trade effects. As put forward by Latipov et al. (2017)⁴⁴ these latter include faster customs clearance procedures for higher-value and bulk imports (since lower-value imports are no longer clogging the ports of entry). This is also evident by the positive relationship that exists between higher de minimis thresholds and higher logistics performance (see Box 3).

⁴³ Ibid, p. 46

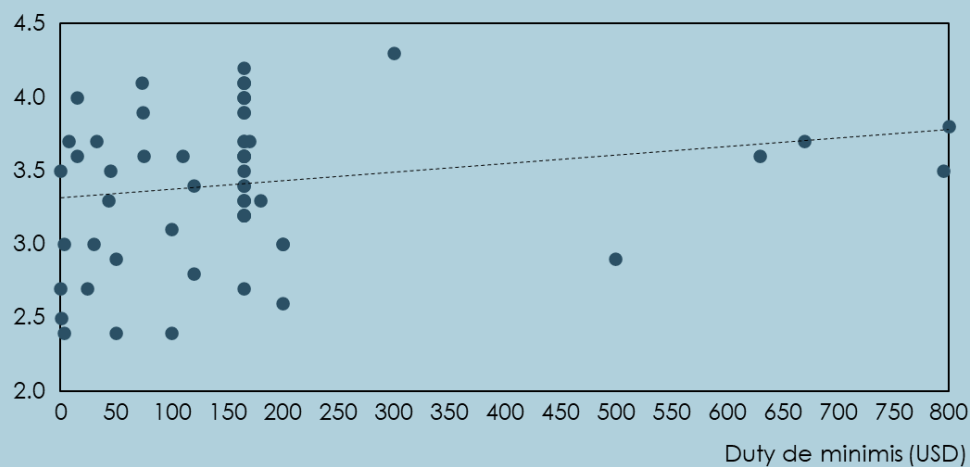
⁴⁴ (Latipov, McDaniel, & Schropp, 2017)

Box 3 Higher de minimis are positively associated with the Logistics Performance Index (LPI)

In 2023, the World Bank published the most recent iteration of its Logistics Performance Index (LPI). The LPI is a summary indicator which scores countries on six measures of logistics performance: Customs, infrastructure, international shipments, logistics competence, tracking & tracing, and timeliness. In 2011, Hufbauer and Wong⁴⁵, compared de minimis thresholds and LPI scores of countries in Asia-Pacific Economic Cooperation (APEC) region finding a positive correlation (the correlation coefficient is 0.6). In other words, countries with higher de minimis thresholds tend to have a better logistics performance. This finding leads them to speculate that “de minimis reform can be a harbinger of broader improvements in customs facilitation”⁴⁶.

Inspired by their methodology, we have investigated whether the correlation still exists to this date, and whether it also applies to other countries out of the APEC region. We find that for 60 countries with a duty de minimis threshold, and with an available 2023 LPI score, the correlation is clearly positive as evident in the figure below.

Figure 4
Positive correlation between duty de minimis and LPI
LPI score (1=low, 5=high) on y-axis



Source: Copenhagen Economics based on LPI data from (The World Bank, 2023), and data on duty de minimis threshold from (Global Express Association, 2021).

An open trade regime has favoured global and EU's economic growth

Trade facilitation is not just an objective *per se*, but it is also an actionable goal that has positive implications on overall economic growth, employment, and productivity.

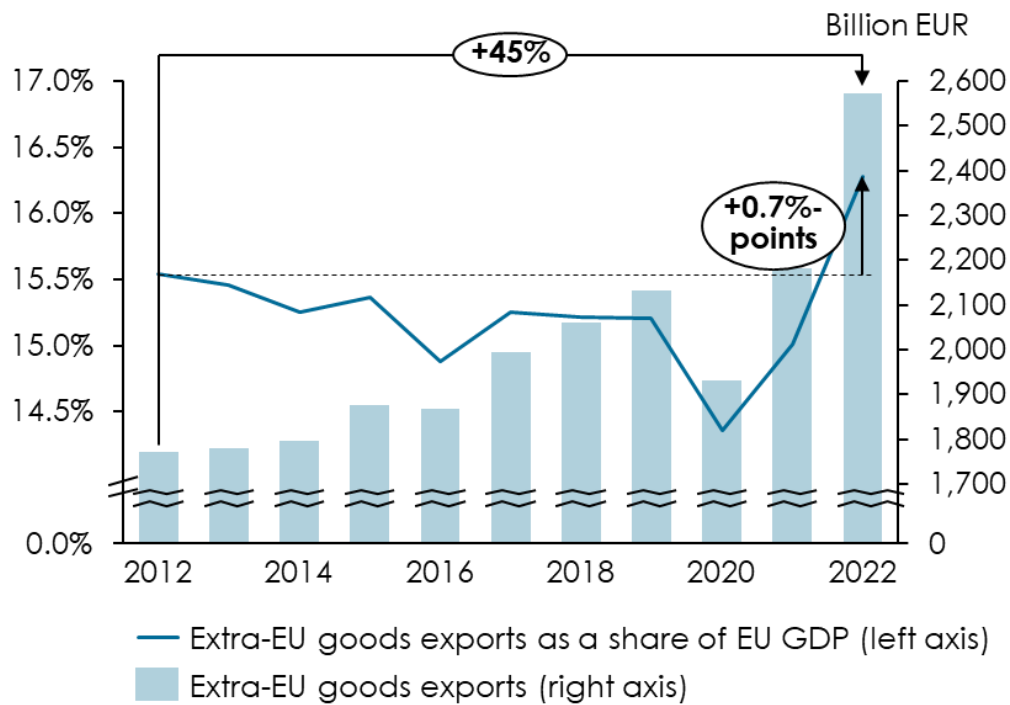
Cross-border trade between Member States and countries outside the EU has been an important driver of development and prosperity in the EU. In 10 years, from 2012 to 2022, the EU has

⁴⁵ (Hufbauer & Wong, 2011)

⁴⁶ Ibid.

recorded an increase of 45% in exports of manufactured goods to extra-EU countries. In 2022 the exports value reached EUR 2.57 trillion (see Figure).

Figure 5
Extra-EU exports of goods and export share of EU GDP, 2012-2022
Billion EUR (right axis) and percent of all EU GDP (left axis)



Note: The sharp decrease in exports in 2020 is to be attributed to Covid-19 pandemic and the associated decline in industrial production and consumption. The increase observed in 2021 and 2022 corresponds to a rebound in global demand and can also be explained by inflation surge.

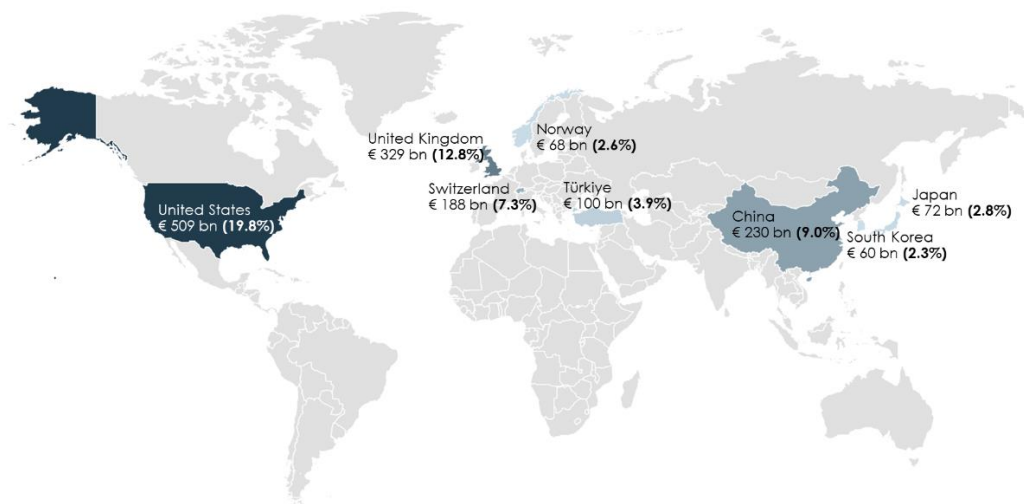
Source: Copenhagen Economics based on Eurostat international trade in goods data

The largest trading partner of the EU is the US, accounting for almost 20% of extra-EU exports of goods in 2022, equivalent to EUR 509 billion, see Figure 6. This relationship represents “the largest and economically most significant trade and investment partnership in the world”.⁴⁷ In addition to the US, other major trading partners of the EU include the United Kingdom, Switzerland, and China, which together amount to approximately 29% of all extra-EU exports of goods in the same year.

⁴⁷ (European Commission, 2021)

Figure 6
Destinations of extra-EU exports of manufactured goods in 2022

Billion EUR (percent of total extra-EU exports)



Note: All trading partners accounting for less than 2.3% of total extra-EU exports not featured

Source: Copenhagen Economics based on Eurostat international trade in goods data

The primary role that the EU has in global trade has always gone hand in hand with an open trade regime.

”

The openness of our trade regime has meant that the EU is the biggest player on the global trading scene and remains a good region to do business with

Source: (European Commission, 2023a)

What ultimately drives benefits from trade is the ability of trade partners to specialise. Each trading party can do what it does relatively best –the areas in which it has a so-called comparative advantage – and buy from others the goods and services in which trading partners have specialised.

External trade has a large impact on the EU economy through the utilisation of comparative advantages, both as a result of direct trade with other regions, but also from the establishment of activities abroad. Trade enables countries to specialise in industries and products in which they have a comparative advantage, i.e., in which they are relatively more productive. As such, increased international trade favours competition and is beneficial to global productivity. For example, Ahn et al. (2016)⁴⁸ estimate that for advanced economies the implied productivity gains from eliminating remaining tariffs are about 1%, without factoring additional benefits from removing non-tariff barriers.

⁴⁸ (Ahn, Dabla-Norris, Duval, Hu, & Njie, 2016)

Without trade, countries would have to produce all products for local consumption self-sufficiently, which is sub-optimal from several perspectives⁴⁹. Ultimately, higher specialisation and productivity enhanced by trade liberalization benefit consumers who enjoy both lower prices but also increased choice from a wider basket of goods and services⁵⁰.

As a consequence, trade is a key driver of economic growth and employment. Empirical estimates find that an increase in trade openness of one percent of GDP is associated with a 2-5 percentage point increase in per capita income⁵¹. Hufbauer and Lu⁵² estimate the payoff to the US from trade expansion at \$2.1 trillion – stemming from policy liberalization and improved transportation and communications technology – from 1950 to 2016. In 2018, the European Union estimated that more than 36 million EU jobs depend on exports outside the EU, increasing by 15% from 2014⁵³.

The impact on import processing and delivery is undoubtedly the most visible and salient impact of a removal of de minimis threshold in the EU. However, the introduction of a trade barrier such as de minimis removal could have relevant effects on European exports as well. Indeed, retaliatory measures from large EU trading partners such as the US could harm EU exporters that now enjoy a \$800 de minimis threshold when shipping their products to the other side of the Atlantic. A newly published paper by the IMF⁵⁴ has empirically demonstrated that retaliation through trade barriers has increased over time and that larger countries tend to retaliate more. Recent history has demonstrated how EU exports can be affected by trade wars. For example, 2018 US' tariffs on aluminium and steel and retaliatory measures imposed by the EU affected at least \$7.2 billion of EU exports and €6.4 (\$7.5) billions of US exports⁵⁵, resulting in a -40% decrease in EU exports of steel⁵⁶.

3.4 Increased trade frictions negatively affect firms' efficiency and competitiveness

As international trade delivers higher growth potential and productivity, businesses active in global value chains benefit from higher specialisation, technological spill overs and economies of scale. Well-functioning supply chains and cross-border logistics that are favoured by de minimis thresholds, among other trade facilitation provisions, are thus essential to ensure businesses can reach their customers efficiently and timely.

In addition, operationally, de minimis thresholds impact businesses' competitiveness through costs related to the administrative and compliance burden and costs incurred on importing and exporting firms. De minimis threshold removal translates into higher prices for importing firms for which low-value shipments represent input to production and increased time to prepare documentation due to the larger volume of consignments requiring a full customs declaration. Hornok and Koren (2010)⁵⁷ point out that document preparation is the most time-consuming of four procedures specified in the *Trading across Borders* database maintained by the World Bank for its annual *Doing*

⁴⁹ (Costinot, 2009)

⁵⁰ (Cernat, Gerard, Guinea, & Isella, 2018)

⁵¹ (Cerdeiro & Komaromi, 2017) and (OECD, 2007)

⁵² (Hufbauer & Lu, 2017)

⁵³ (European Council, 2018)

⁵⁴ (Furceri, Ostry, Papageorgiou, & Wibaix, 2023)

⁵⁵ (Dardush, 2021)

⁵⁶ (Brown & Russ, 2021)

⁵⁷ (Hornok & Koren, 2010)

Business Report. Document preparation represented about 50% of the total time of delivery for the average country.

Trade facilitation is essential to enable domestic firms that employ imported inputs to stay competitive in the market. In this sense, the recent abolition of industrial tariffs in Switzerland is exemplary (see Box 4).

Box 4 The abolition of industrial tariffs in Switzerland is expected to deliver higher competitiveness and lower prices to consumers

In February 2022, the Federal Council of Switzerland communicated its decision to abolish import duties charged on Swiss industrial products. The decision followed an amendment to the Customs Tariff Act, which was passed in the parliament in October 2021, with the abolition becoming effective from the beginning of 2024. With the broad classification of industrial goods under Swiss legislation, only agricultural and fishery products are left outside this abolition.

This decision is motivated by a change in the international trade environment, says the Swiss government. Industrial tariffs, once put in place to protect domestic production, no longer serve that purpose as they have led to higher prices for inputs procured abroad. This has resulted in Switzerland standing out from its neighbouring countries in being relatively, and notably expensive. For businesses, the abolition brings with it a benefit in decreasing production costs, which enhances Switzerland's international competitiveness. As Switzerland has become more deeply integrated in global value chains, the abolition of industrial tariffs is said to add to the country's competitiveness by also making trade ties more efficient. Swiss consumers stand to gain from various imported goods (such as cars, bicycles, and clothes) becoming less expensive as a result of the abolition⁵⁸.

The rationale behind the decision is supported by investigations initiated by the Swiss State Secretariat for Economic Affairs (SECO) on the extent of industrial tariffs in Switzerland and on potential effects of their abolition on the Swiss economy. Moser and Werner (2015)⁵⁹ have distinguished between two sources of economy-wide gains: i) the relief on importing companies and consumers which stems from the elimination of customs payments and ii) the simplification of the customs procedure and related formalities in general. The welfare gain for companies and consumers is estimated to be higher than the foregone tariff revenues for the state (in 2014, the tariff revenue from industrial goods amounted to CHF 485 million, 42.7% of Switzerland's total customs revenue).

A series of impact assessment studies examined the effect of the abolition of these tariffs, finding overall welfare gains that could amount up to CHF 860 million. In their study, Moser & Werner (2015) report that the positive welfare effect would stem specifically from reducing the non-tariff costs associated with customs duties. These costs, which include customs formalities, waiting times and proof of origin for imports from countries with which Switzerland has a free trade agreement (FTA), were seen as cumbersome by industry representatives interviewed by the authors.

The reform is set to answer precisely these concerns and shortcomings. With the abolition of industrial tariffs, the obligation to declare imports at the border stays in force, but it is set to be made efficient by a reformed goods traffic system, as reported by SECO. Furthermore, imports

⁵⁸ (Switzerland Federal Council, 2022)

⁵⁹ (Moser & Werner, 2015)

from FTA countries are said to be exempted from proof of their origin if the goods in question are to remain or be consumed in Switzerland.

Small enterprises would be disproportionately harmed by de minimis threshold removal

De minimis regimes are particularly important for small and medium-sized enterprises (SMEs) as they generally face a disproportionate compliance burden with respect to the completion of customs formalities.

A number of studies⁶⁰ show that customs duties are major barriers to SMEs' participation in international trade, and it has then been argued that an appropriate de minimis regime can benefit both governments and traders, especially SMEs.

A report prepared by the Consumer Unity & Trust Society⁶¹ points out that fulfilling customs procedures is among the top bottlenecks to cross-border trade for SMEs as they have inadequate capacity (in terms of infrastructure as well as trained human resource) to comply with complicated customs procedures. A 2003 OECD paper⁶² reported an EU study of customs procedures finding that "firms with fewer than 250 employees incur trade transaction costs that are 30-45% higher per consignment than those falling on larger firms".

By providing an exemption from complying with customs duty collection procedures if consignment value is within the de minimis threshold, de minimis threshold regimes represent an effective business facilitation measure for smaller firms. Higher compliance costs are particularly relevant for SMEs as they cannot capitalize on economies of scale, bargaining power with logistics operators or multiple parcel delivery channels.

In this sense, trade compliance costs act as a barrier for SMEs to enter into new international markets as well as their expansion in the existing ones. A de minimis regime reduces this cost and thus enhances the scope of internationalisation of SMEs.

3.5 EU consumers will bear costs from the removal of the de minimis

Ultimately, an increase in the level of the effective trade barriers, following a removal of de minimis threshold, would result in a decrease in consumers' welfare. Increased administrative costs borne by importing firms, increased time to delivery due to time-consuming border processing, or reduced choice are the main channels through which consumers can be harmed.

Cross-border trade of low-value goods is relevant to EU consumers

The market for cross-border low-value consignments is particularly relevant to EU consumers.

⁶⁰ See, among others, (CUTS International, 2018; Cusolito, Safadi, & Taglioni, 2016; Suominen, 2017)

⁶¹ (CUTS International, 2018)

⁶² (Walkenhorst & Yasui, 2003)

According to Eurostat⁶³, in 2022, 10 percent of EU consumers had purchased from a country outside the EU in the previous 3 months (in Figure 7, we observe a particularly large share of consumers purchasing from extra-EU countries in Ireland. With the UK being the primary trading partner for Ireland, this is likely driven by the end of the Brexit transition period on 31 December 2020).

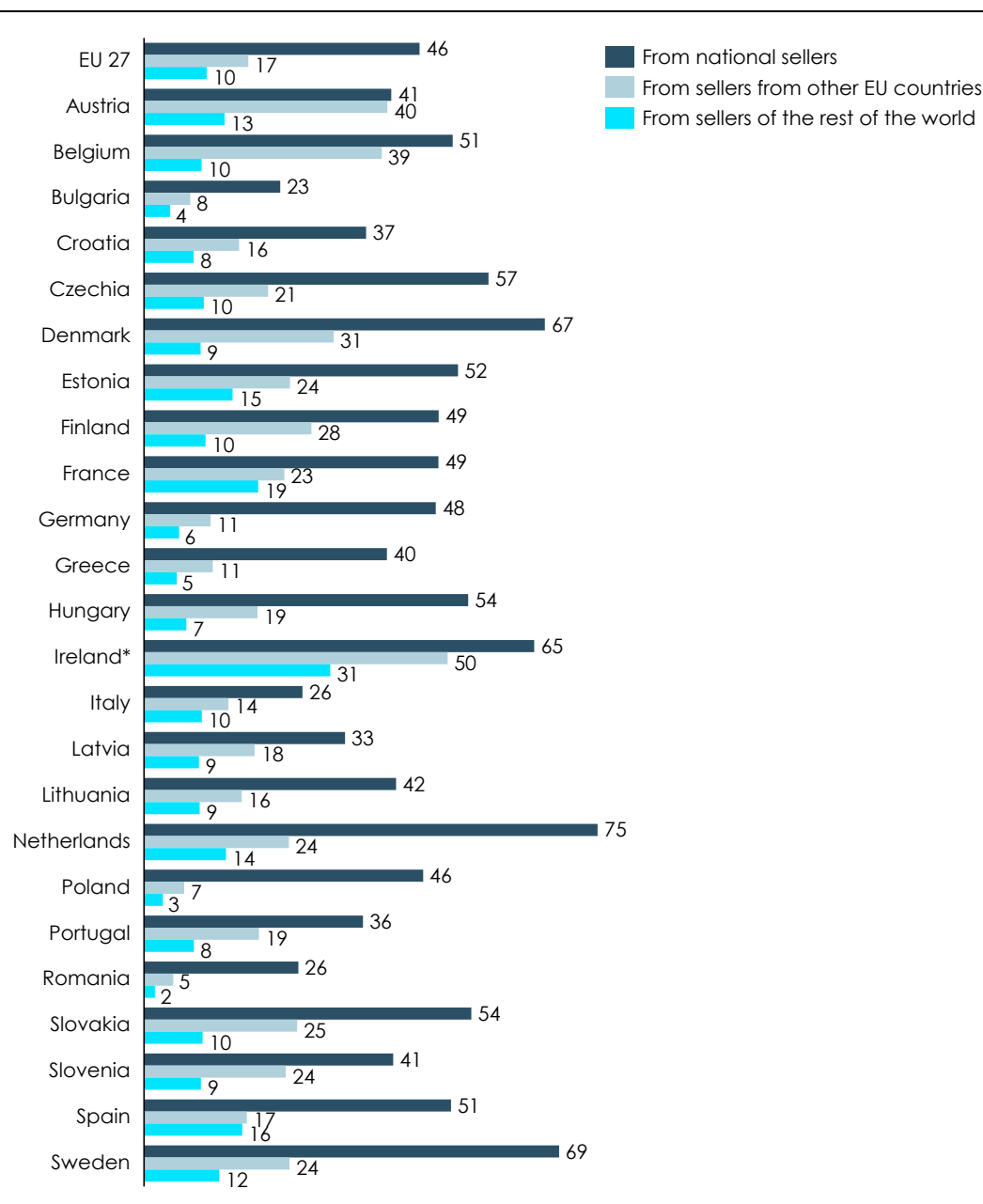
According to Eurostat, the most common online purchases of goods in 2022 were:

- clothes, shoes or accessories (ordered by 42% of internet users);
- deliveries from restaurants, fast-food chains and catering services (10%);
- cosmetics, beauty or wellness products (17%);
- furniture, home accessories or gardening products (16%)
- and printed books, magazines or newspapers and sports goods (excluding sports clothing) (both 14%).

All these consumer goods categories are examples of highly traded consumer goods that fall into the universe of low-value consignments that could cross international borders (except food deliveries).

⁶³ (Eurostat, 2023b)

Figure 7
Online purchasing behaviour of EU customers over the past three months, 2022
Proportion of customers, [%]



Note: From the EU survey on the use of Information and Communication Technologies in households and by individuals. Ireland is missing 2022 figures, so 2021 figures are used instead.

Source: (Eurostat, 2023b)

Between 2012 and 2022 there has been a significant increase in purchasing that involved all three seller categories: domestic, intra EU and extra EU sellers. The proportion of consumers purchasing from non-EU merchants has increased from 4% in 2012 to 12% in 2019. Purchases from national merchants have grown almost throughout the 10-year period in question, while those from abroad have reached a relatively stable level after 2018.

Longer delivery times caused by trade frictions harm consumers' welfare

De minimis threshold removal entails additional complicated customs procedures that affect delivery speed. Procedural obstacles relate not only to those more than 1.3 billion small items that are delivered to the EU every year, but they can also affect other shipments due to negative spill over effects of additional workload for customs administrations and economic operators.

Logistics and distribution issues are particularly relevant given the importance of delivery speed for customers. The most recent cross-border survey of the International Post Corporation (IPC)⁶⁴ reveals that delivery speed is simultaneously considered as the most common complaint and as the factor related to delivery with the lowest degree of satisfaction by consumers.

Delays act *de facto* as an additional transaction cost. Research on time as a trade barrier by David Hummels (2001⁶⁵, 2007⁶⁶, 2013⁶⁷) has shown that each extra day in shipping time translates into a tariff-equivalent barrier. Estimates from Hummels and Schaur (2013)⁶⁸ suggest that each additional day that goods spend in transit is equivalent to a tariff of between 0.6 and 2.3 per cent.

Consumer goods, which are more affected by de minimis threshold, are particularly time sensitive. Hummels showed that more time-sensitive goods, such as consumer-goods, have a higher “time cost” than commodities. Hufbauer and Wong (2011)⁶⁹ estimated the value lost by customers for each additional day of delay for 51 different consumer goods. Their model shows that one extra day of travel time translates into an average tariff equivalent of about 0.4 percent. For some products, such as books, lamps, TVs and sporting goods, the estimate additional tariff goes up to 0.5 percent.

Higher transaction costs can translate into higher prices and reduced choice for consumers

De minimis regimes lower transaction costs as low value imported goods are not subject to customs duties and their shipment is faster and smoother. Higher processing costs caused by a removal of de minimis thresholds would thus translate in either a profit loss for the importing firm or higher prices to consumers. This would depend on the ability of the importing firm to pass the disadvantage onto the final price paid by the consumer.

⁶⁴ (IPC, 2022)

⁶⁵ (Hummels, 2001)

⁶⁶ (Hummels, 2007)

⁶⁷ (Hummels & Schaur, 2013)

⁶⁸ Ibid.

⁶⁹ (Hufbauer & Wong, 2011)

How much of a cost increase will be passed through to consumer prices depends on the incentive that firms have in responding to a cost increase by raising their prices. In general, the pass-through of costs depends on three main factors:

1. The competitive structure of the market
2. Elasticity of supply
3. Elasticity of demand

The effect of competition on pass-through rates depends on whether there is substitution between those who experience the cost increase and those firms that do not.

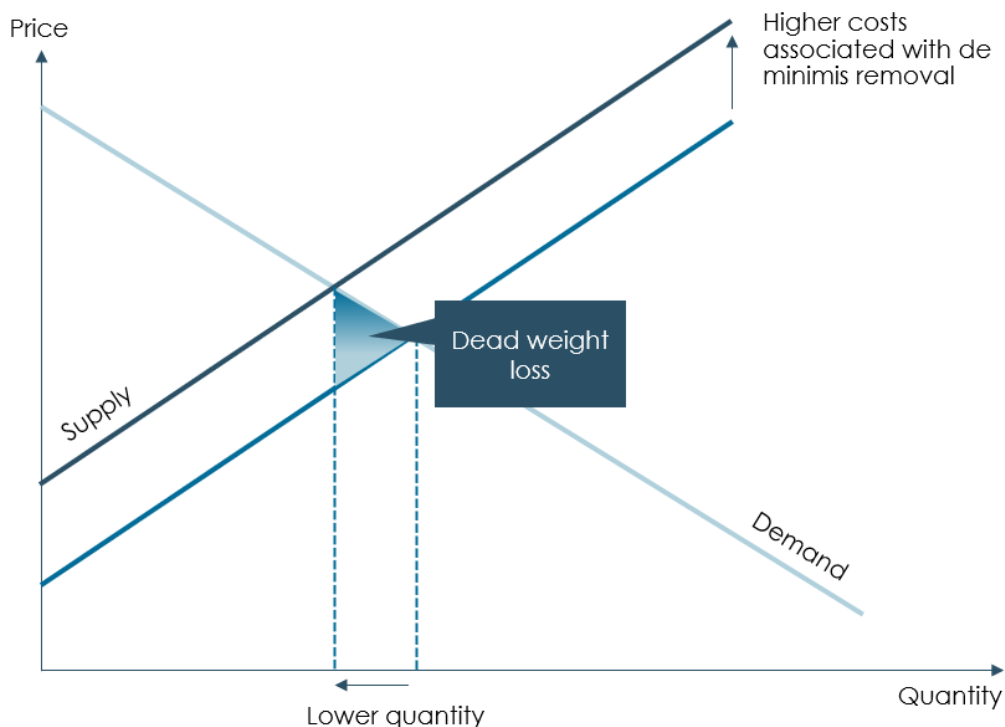
Initially, we expect all delivery operators to suffer increased administrative costs, i.e., the cost increase is industry-wide. In this case, we expect the pass-through to be strong, insofar as competition is also strong. The e-commerce marketplace for low-value goods seems – relative to other industries – quite competitive, due to the broad range of offers available online and relatively low entry barriers.

The sensitivity of firms (supply) is another important factor. As a simple example, consider a market with perfect competition and therefore prices at marginal cost. If firms are very sensitive (i.e., a flat supply curve) and if the marginal cost increases, the firm has no choice but to raise the minimum price at which it is happy to supply. Unlike cost variations, the variation in a customs duty most likely shifts upwards the supply curve.

Elasticity of demand will depend on the relative value of these goods (at current prices), alternatives available and consumers' reactions to a price increase. Increased trade frictions that discourage import reduce consumer choices. Reduced choice is driven by a decrease in competition from importers that are less competitive relative to a situation where the de minimis threshold is in place. Moreover, as seen in section 3.4, increased trade frictions are likely to disproportionately hurt SME importers, who could be discouraged from entering a new international market.

Higher prices and reduced choice might translate into a lower demand. In economic terms, removing the de minimis threshold could result in a deadweight loss - which is a measure of foregone welfare - due to compressed demand and foregone transactions that would have happened absent the policy change (see Figure 8).

Figure 8
Deadweight loss resulting from de minimis removal



Note: Illustrative
Source: Copenhagen Economics

We conclude that several of the factors associated with a high pass-through are expected to be in place in this market, which is a strong indication that a large share of the costs arising from the proposal to remove de minimis will be passed on to EU consumers.

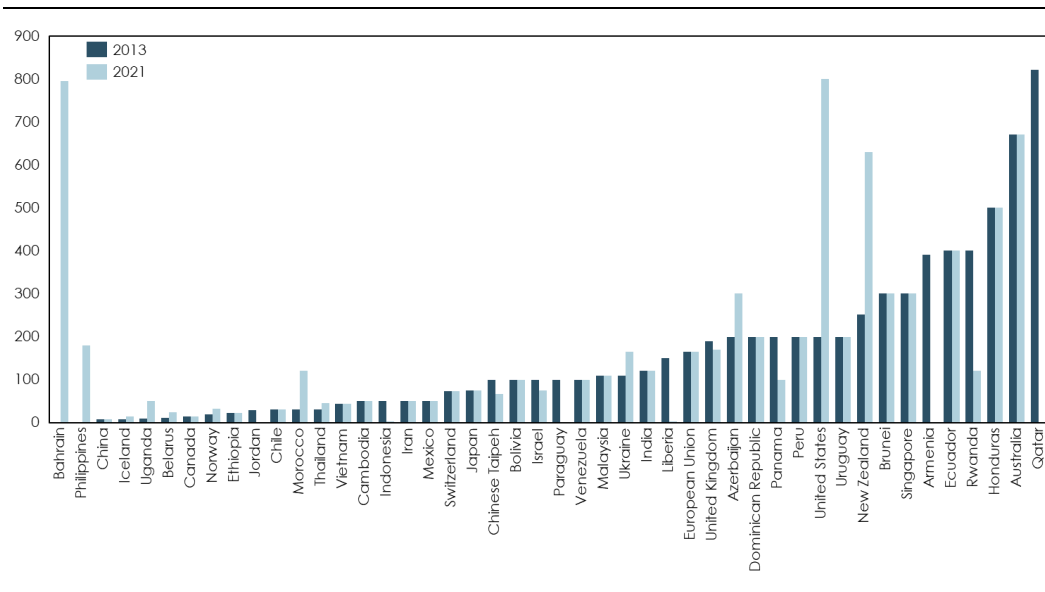
4 DE MINIMIS THRESHOLDS HAVE REMAINED STABLE OR HAVE BEEN INCREASED IN MORE DEVELOPED COUNTRIES

De minimis levels vary greatly across countries. Some countries have no duty de minimis threshold, some have low thresholds (e.g., Canada, CAD\$20), some have very high thresholds (e.g., the US, \$800, Australia, AU\$1,000).

Generally, de minimis thresholds have remained stable in recent years. Below, in Figure 9, duty de minimis thresholds for 71 countries and areas (e.g., all EU Member States share the same de minimis threshold and are thus grouped under “European Union”), for years 2013 and 2021 are shown. Out of 71 of the territories displayed in the figure, 48 countries have kept the same threshold, 12

have increased it, 8 have decreased it. 3 have eliminated it. Among the countries that opted to increase their de minimis threshold we find the United States and New Zealand.

Figure 9
Duty de minimis thresholds for different countries
Duty de minimis threshold (USD)



Source: Copenhagen Economics based on data from (Global Express Association, 2013; Global Express Association, 2021)

4.1 Some notable developed countries have raised their customs de minimis thresholds

Customs and trade policy concerning low-value shipments is potentially quite impactful for high-cost countries that are exposed to low-cost imports from third countries. This may be because of the pressure on domestic retailers and manufacturers from the available products and retail activity that can be supplied from more low-cost countries, including low-value goods.

Accordingly, one would expect that countries that record higher imports share from low-cost countries would react by lowering their de minimis thresholds to shield domestic retailers from competition. However, the United States, Australia, New Zealand, and Canada, all countries characterised by a high import penetration from low-cost competitors, have all adopted an opposite approach, maintaining or raising their customs duty de minimis thresholds.

The solutions chosen by these countries, that are similar to the EU in terms of trade balance and import penetration, show that lowering the de minimis is not the only option available to ensure fair competition. Other solutions that do not entail higher costs for governments, businesses and consumers exist.

The United States increased their de minimis threshold from \$200 to \$800

In 2016, the US raised its de minimis thresholds for import duties and taxes from \$200 to \$800 as part of the Trade Facilitation and Trade Enforcement Act of 2015⁷⁰. This increase was largely motivated by various ways in which it would streamline administrative processes, reduce their burden on the US government and thereby stimulate the US economy.⁷¹ More precisely, the benefits include:

- Balancing revenue from tariff imposition with the administrative costs of collecting duties;
- Reducing the burden imposed on small companies by customs regulation;
- Simplifying the customs entry process and cutting the red tape in various parts of a good's value chain;
- Leaving more administrative resources for investigating so-called high-risk trade.



Higher thresholds for the value of articles that may be entered informally and free of duty provide significant economic benefits to businesses and consumers in the United States and the economy of the United States through costs savings and reductions in trade transaction costs

Source: Trade Facilitation and Trade Enforcement Act of 2015, section 901 (a) (2)

Before the enactment of the reform, in their comprehensive policy paper, Hufbauer and Wong (2011)⁷² provided a first estimate of the annual net gain from increasing the de minimis threshold from \$200 to \$800 to amount to \$17 million. They add that if the de minimis threshold were to be raised further to \$2,500 the net economic gain estimate rises to \$81 million annually. The forgone tariff revenue from a de minimis thresholds increase from \$200 to \$800 would be more than compensated by it providing savings in transaction costs for consumers, businesses, and authorities. The red tape costs with handling the entries in the \$200 to \$800 range alone constitute \$33 million annually, according to their estimates. These estimates are in line with the US government's objective of reducing its administrative burden with a de minimis thresholds increase.

Finally, the Congress stated that raising the de minimis threshold of the United States has also the ambition of encouraging other countries to follow the US' example and strive towards an improved trade facilitation: "It is the sense of Congress that the United States Trade Representative should encourage other countries, through bilateral, regional, and multilateral fora, to establish commercially meaningful de minimis values for express and postal shipments that are exempt from customs duties and taxes and from certain entry documentation requirements, as appropriate".⁷³

⁷⁰ (114th Congress (2015-2016), 2016)

⁷¹ (Nakao, 2021)

⁷² (Hufbauer & Wong, 2011)

⁷³ (114th Congress (2015-2016), 2016)

Australia extended GST to low-value goods, while retaining an AU\$1,000 threshold for duty

In July 2018, Australia reformed its low value imported goods (LVIG) regime, removing the Goods and Service Tax (GST) threshold on imported low value goods, but **keeping at AU\$1,000 the de minimis threshold for customs duties**. The reform was accompanied by a redesigned collection model that allows to streamline collection of GST and lowers the administrative burden.

The newly implemented ‘vendor registration’ or ‘vendor collection’ model imposes the obligation to collect and remit GST on the overseas vendors, rather than on the point of import. It achieves the stated objective of “promoting tax neutrality with domestic sales”⁷⁴ by removing the GST low value threshold, while keeping costs of collection relatively low.

In practice, foreign e-commerce vendors, re-deliverers, and electronic distribution platforms (EDPs), such as Amazon or eBay, collect the GST of 10% by goods below AU\$1000 ordered by consumers in Australia. Only vendors that make sales in Australia for at least AU\$75,000 a year need to register and charge GST, but, if foreign vendors below that threshold sell through EDPs, these latter must register for and collect GST on all taxable supplies made through their platform. Hence, no involvement by customs authorities is needed and collection costs are dramatically reduced.

This streamlined administrative process benefits the consumer as it minimises disruptions and burdens. However, the commission also warned of consumers facing price increases equivalent to the amount of the tax for low-valued goods. Subsequently, this could also increase the price level of domestic goods.

”

The legislated model should improve tax neutrality between imported and domestically retailed low value goods, and avoid major disruption for consumers when importing goods. However, the revenue collected is likely to be modest and will depend on the rate of compliance, for which no precise estimates are possible. Foreign suppliers will incur significant costs in complying with the legislated model and, as under any collection model, consumers will face higher prices

Source: (Productivity Commission, 2017)

Overall, this system achieves the objective of tax neutrality and increased revenue collection at limited costs for administrations, businesses, and consumers⁷⁵.

⁷⁴ (Productivity Commission, 2017)

⁷⁵ In 2021, a report prepared by the Board of Taxation reviewed the 2018 reform and concluded it to be a success in terms of GST revenue collection, and take-up of the LVIG by stakeholders (Australian Government. The Board of Taxation, 2021)

A key relevant feature of the above reform is that this joined-up customs and taxation reform package allows Australia to retain the de minimis threshold for duties, which avoids unduly disfavouring low-value imports and does not impose additional burdens on the supply chain and final consumers. This choice is in line with the approach followed by the Australian Productivity Commission: “Competition from international retailers can be important in driving efficiency in the Australian retail industry. In addition, many businesses currently receive goods which enter Australia under the LVT [low value threshold]. Longer delays or unnecessary charges associated with processing such imports will also hinder those businesses and there will be very limited additional revenue collected”.⁷⁶

Box 5 New Zealand increased its duty de minimis threshold from NZ\$ 60 to NZ\$ 1,000

New Zealand followed Australia in making overseas businesses who sell to consumers in New Zealand liable for registering for, collecting, and returning GST on low valued goods while simultaneously raising the duty de minimis threshold from NZ\$ 60 to NZ\$ 1000. The aim of the reform, entered into force 1 December 2019, was to streamline trade flows, reduce the administrative burden of the customs authority and ensure tax neutrality between domestic and foreign suppliers. The reform applies to overseas businesses, online marketplaces and re-deliverers who expect to provide supplies worth more than NZ\$ 60 000 to consumers in New Zealand during a 12-month period.

Source: (Government of New Zealand - Inland Revenue, 2022)

Box 6 Canada employs a simplified classification and duty rate system and retains a de minimis threshold

Since 2012, Canada has operated a Generic Harmonised System (GHS) for shipments under 500 Canadian dollars. This simplified tariff classification process allows to classify shipments falling below this value threshold under three ‘dummy’ HS codes (or ‘buckets’) which replace the nearly 5,400 HS codes used to classify goods above that value. Each ‘bucket’ is then assigned a rate depending on whether the goods are imported from a country having a Free Trade Agreement with Canada or not (e.g., for US goods the rate would be zero).

The use of GHS is optional and enables the foreign vendor to easily calculate the duties facilitating the processing of low-value shipments. Classification mistakes are virtually eliminated, making implementation easier for both vendors and government authorities and making it easier for the latter to forecast revenue.

Source: (Global Express Association, 2020) and (WTO, 2021)

⁷⁶ (Productivity Commission, 2011), p. 190

5 CONCLUDING REMARKS

Evidence from economic literature and the recent experience of relevant comparator countries such as the United States and Australia (all of which share with the EU bloc the policy aim at disciplining and structuring the flow of e-commerce from Asia – while preserving efficiency and facilitation of trade flows) show that a de minimis threshold on customs duties is a relevant instrument to promote trade facilitation. The existing literature highlights the role of customs de minimis thresholds as cost-efficient and unequivocally shows that their removal would translate into increasing trade frictions.

De minimis thresholds are prescribed by the WCO Revised Kyoto Convention (RKC) and encouraged by the OECD and the ICC. The removal of de minimis thresholds on duties would have a significant impact on time to trade, customs administration and economic operators' additional red tape and associated costs that are hardly offset by revenue collection. Ultimately, this increased complexity would fall onto businesses and consumers who might suffer significant welfare losses due to higher prices, less choices, and less efficient markets.

Furthermore, removing this threshold would create a unilateral trade barrier that would hamper the ambitions of the European Union of being “one of the most outward-oriented economies in the world”⁷⁷ and could potentially give incentives to other economies to move backwards from trade liberalisation.

Recent disruptions in global supply chains exposed by Covid-19 pandemic and the exit of the UK from the Single Market have made it evident to businesses and consumers how increased trade barriers negatively affect their operations and welfare. The removal of de minimis threshold on duties could represent a further constraint to the competitiveness and productivity of firms in the EU and be detrimental to the welfare of its citizens and businesses.

Last but not least, an EU policy decision to remove the customs de minimis would burden each EU Member State to incur additional costs (all else equal) at the level of its customs agencies – an amount yet to be quantified.

⁷⁷ (European Union, 2023)

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