



**eBay Canada**

**Submission to the Senate Standing Committee on  
Banking, Trade and Commerce**

**Study on new and emerging issues for Canadian importers and exporters  
in North American and global markets**

**March 6, 2018**



## Overview

eBay is one of the world's largest online marketplaces, connecting people with the things they need and love virtually anytime, anywhere. eBay is a top e-commerce destination for Canadians, receiving more than eight million unique Canadian visits each month, with Canadians trading more than \$1.5 billion on eBay annually. On eBay, Canadian consumers have access to a global marketplace with more than one billion items available and Canadian business and individuals sell over one million items every month. As a global marketplace powered by technology-enabled small business, eBay advocates for policies that make it easier for SMEs to get online, access new markets, scale their exports and reach their full potential.

### De Minimis Threshold

The de minimis threshold is the level below which shipments can enter Canada without being assessed for duty or taxes. Canada's de minimis currently stands at the threshold of \$20, a rate initially set in 1985, a decade before the emergence of electronic commerce platforms on the Internet. Canada's de minimis is the lowest in the industrialized world and among the lowest in the industrialized world, ranking alongside Uganda and Jordan.

**eBay Canada proposes that the Senate Committee on Banking, Trade and Commerce recommend that the Government of Canada increase the Canadian de minimis threshold from its current rate of \$20 to reduce onerous red tape for small business owners and improve the flow of goods across the border.**

### NAFTA Renegotiations

Delivering on the campaign promise to renegotiate the North American Free Trade Agreement (NAFTA), the Trump administration published its list of goals<sup>1</sup> for the Agreement's scheduled renegotiation on July 17, 2017. The U.S. has stipulated that they plan to modernize NAFTA so it reflects "21<sup>st</sup> century standards" for conducting trade. **As such, the White House has called on Canada and Mexico to "provide for a de minimis shipment value comparable to the U.S. de minimis shipment value of \$800."**<sup>2</sup>

As part of its goal to modernize NAFTA, the Canadian government has signalled a focus on e-commerce and related issues. The Standing Committee on International Trade has held meetings with stakeholders to provide feedback for a study that focuses on Progressive Canadian Enterprises and SMEs through Electronic Commerce.

Andrea Stairs, President, eBay Canada Ltd., appeared as a witness on this Standing Committee in October 2017, presenting arguments on the benefits of increasing Canada's \$20 CAD de minimis threshold. Additional pro-increase arguments were presented by representatives from

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<sup>1</sup><https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf>

<sup>2</sup> <https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf>



Startup Canada, Canadian Manufacturers & Exporters (CME), as well Canada Research Chair in Internet and E-Commerce Law at the University of Ottawa, **Michael Geist**.

**Excerpt highlights from the Standing Committee on International Trade about Progressive Canadian Enterprises and SMEs through Electronic Commerce, October 23-25, 2017 support measures to increase the duty exemption limit for inbound e-commerce shipments:**

- **Andrea Stairs, Managing Director, eBay Canada:** *"...the playing field is not level precisely because you have Canadian small and medium-sized businesses trying to engage in global e-commerce using a de minimis threshold of \$20 that is over 30 years old, set before e-commerce was a thing, competing against American sellers who are facing a de minimis threshold of \$800. In fact, I think increasing the threshold to create freer trade for small and medium-sized businesses would be of net benefit to the country. Certainly, it would be of benefit to Canadian taxpayers."*<sup>3</sup>
- **Michael Geist, Canada Research Chair in Internet and E-Commerce Law at the University of Ottawa:** *"...no Canadian company succeeds in the e-commerce environment by solely targeting the Canadian market, so the notion that somehow if only we taxed everybody trying to sell into the Canadian market there would be opportunities for Canadian businesses to succeed online, with respect, I don't think that's consistent with what we've seen. Over the last decade or so, we've seen consistently that Canadian companies can compete in the global market, but the only way you compete in the global market is by competing in the global market. Trying to increase costs in the Canadian market for some of that competition isn't really an effective way to do that."*<sup>4</sup>
- **Matthew Wilson, Senior Vice President, CME:** *"We didn't mention it in our statements today, but we have in the past pushed for higher limits. I mean, \$800 is.... I don't really know what the number is, but \$20 is just ridiculously low, in our opinion. We had put \$200 because that's the personal exemption. If you or I travel across the border for 48 hours, that's what we can bring back. We think it's a reasonable number and in line with what an individual can do but a business can't do. Nothing is bought for \$20 today. It was set in the 1980s. I think in the early 1990s it was changed to \$20. We're just out of step globally. I think an increase is merited. As to unlimited numbers like \$1,000 or \$800, I actually don't know what the impact would be. It just shouldn't be.... Even if it were kept up to inflation, I think it would be \$45 today, which would be a lot better than the \$20 that it is. We have pushed \$200 in the past to align it with personal exemptions."*<sup>5</sup>

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<sup>3</sup> <http://www.ourcommons.ca/DocumentViewer/en/42-1/CIIT/meeting-83/evidence>

<sup>4</sup> <http://www.ourcommons.ca/DocumentViewer/en/42-1/CIIT/meeting-83/evidence>

<sup>5</sup> <http://www.ourcommons.ca/DocumentViewer/en/42-1/CIIT/meeting-82/evidence>



- **Victoria Lennox, co-founder, Startup Canada:** *“I think increasing the threshold will definitely increase the competitiveness of our companies, but the entrepreneurs right now are finding ways around it. They work with some of the UPS stores and Amazon warehouses in order to go across the border and have everything shipped to the U.S. Then they drive over with their families and their colleagues or whatever they need to do. Even so, I'm not sure what the impact will be, but certainly anything we can do to open up our borders and make it easier to do commerce with the United States would certainly help our small businesses to scale<sup>6</sup>.*

An analysis of the Canadian de minimis threshold was also recommended in the 2013 report of the Standing Senate Committee on National Finance, *the Canada-USA Price Gap*, on the basis that an increase would “narrow the price discrepancies for certain goods between Canada and the United States.”<sup>7</sup> However, there are numerous other benefits to consumers, small businesses and government associated with raising the de minimis threshold.

### **Cost and Benefits**

A recent report reviews the costs and benefits of various de minimis increase scenarios, which demonstrate significant benefits to consumers and businesses – particularly SMEs - while also being fiscally neutral or positive to government.<sup>8</sup> In fact, Christine McDaniel, one of the report’s authors, has concluded: “we find that lifting the threshold would have a net economic benefit of up to C\$648 million.” Specific benefits of increasing the de minimis include:

#### **(1) Improved efficiencies for government**

As the current de minimis threshold has remained unchanged since the 1980s, the real value of the \$20 threshold has been significantly eroded by inflation. Over the same period, the costs associated with collecting the duties and taxes payable on shipments have increased. A study in the *World Customs Journal* has estimated that the cost incurred by the Government of Canada to process and collect duty on low value packages (LVPs) in Canada exceeds the amount of duty collected.<sup>9</sup>

In fact, we are aware that CBSA and Canada Post do not strictly enforce the current \$20 de minimis threshold. The inconsistent approach to enforcement, particularly for shipments

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<sup>6</sup> <http://www.ourcommons.ca/DocumentViewer/en/42-1/CIIT/meeting-83/evidence>

<sup>7</sup> <http://www.parl.gc.ca/content/sen/committee/411/nffn/rep/rep16feb13-e.pdf>

<sup>8</sup> [https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed/E-brief\\_Rights%20of%20Passage\\_June16.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/E-brief_Rights%20of%20Passage_June16.pdf)

<sup>9</sup> [http://worldcustomsjournal.org/Archives/Volume%206%2C%20Number%201%20\(Mar%202012\)/04%20Holloway\\_Rae.pdf](http://worldcustomsjournal.org/Archives/Volume%206%2C%20Number%201%20(Mar%202012)/04%20Holloway_Rae.pdf)



under \$100, supports the conclusion that the cost to collect duties and taxes on LVPs far outweighs the revenue payable to the government.

Unfortunately, neither consumers nor business can predict when the threshold will be applied, creating uncertainty and costs for businesses. Increasing the de minimis to a point where collection is revenue-neutral or better will ensure that the threshold can be consistently enforced and will create certainty for businesses and consumers while generating fiscal benefits for the government.

The C.D. Howe Institute's report shows government spent \$166 million (CAD) to collect just \$39 million in duty and taxes on goods valued between \$20 and \$80, and that if the de minimis were increased to \$80, government could either recognize \$127 million in savings or invest it in consistent collection of duties and taxes on higher-valued goods to bring in revenues of \$34 million. Considering items between \$20 and \$200, the difference between the cost to collect (\$278 million) and the amount reclaimed (\$117 million) yields even greater savings.

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

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

While small e-commerce businesses can reclaim taxes paid on business inputs and amounts assessed on returns, this drives significant administrative costs: often, costs associated with reclaiming these duties or taxes exceed the amount paid. eBay Canada has surveyed a variety of its sellers on this topic and has found that the some simply absorb these 'extra' duties and taxes rather than devote resources to reclaiming those amounts.

An OECD study found that trade transaction costs for companies with 250 or fewer employees are 30-45 percent higher than those incurred by other firms.<sup>10</sup> Unsurprisingly, SMEs view customs delays as the most significant trade barrier.<sup>11</sup> Additionally, the time taken

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<sup>10</sup>[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TD/TC/WP\(2003\)31/FINAL&docLanguage=EN](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=TD/TC/WP(2003)31/FINAL&docLanguage=EN)

<sup>11</sup>[https://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals\\_Global-Consumers\\_WTO\\_Report\\_1.pdf](https://www.ebaymainstreet.com/sites/default/files/Micro-Multinationals_Global-Consumers_WTO_Report_1.pdf)



in the administration of duty significantly affects businesses, as they incur costs (or reduced cash flows) when goods are held at the border. While bigger businesses can access private logistics chains and pre-clear goods, SMEs do not have this option.

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

Analysis of Canadian SMEs on eBay shows that nearly all export (99.8%) and reach an astounding average of 20 markets each.<sup>12</sup> These thousands of SMEs are testament to the tremendous power of Internet-enabled trade, but they are also evidence of the need for Canadian border policies – particularly the de minimis threshold – to be better aligned with international standards.

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

Government increased the value of goods that could be imported duty- and tax-free by Canadian residents returning from abroad in Budget 2012: \$200 for an absence of 24 hours; and \$800 for an absence of 48 hours.<sup>13</sup> However, there was no increase for inbound parcel shipments.

The lack of a corresponding increase to the de minimis threshold puts remote communities, Northern Canadians and low-income families at a disadvantage. These groups are unable to regularly travel across the border and benefit from in-person absence limits; in fact, *“while the majority of Canadian in-person cross-border shoppers live less than 18 miles from the US border, most Canadians reside more than 81 miles away.”*<sup>14</sup>

Local stores in northern and remote communities often offer a smaller range of products, thus amplifying the value of e-commerce in rural areas. By increasing the threshold (aligning it with the personal exemption for 24-hour trips abroad), all Canadians, regardless of where they live or how much they make, would benefit from existing duty limits.

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

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<sup>12</sup><http://www.newswire.ca/news-releases/optimism-among-canadian-smb-exporters-despite-economic-challenges-567491761.html>

<sup>13</sup><http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>

<sup>14</sup>[http://strategy.sauder.ubc.ca/head/papers/crossings\\_final.pdf](http://strategy.sauder.ubc.ca/head/papers/crossings_final.pdf)



because “even modest distances are enough to prevent most consumers from cross-border shopping, limiting the pressure on manufactures to set similar prices in each country.”<sup>15</sup>

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

eBay’s recent Commerce 3.0 study found that many small businesses who export using technology platforms utilise public logistics providers such as Canada Post almost exclusively.<sup>16</sup> However, each year Canadian consumers ship millions of packages to US addresses (mostly border towns) to avoid the costly duty and taxes. This diversion of ecommerce packages represents a significant loss of revenue to Canada Post. As such, an increase to Canada’s de minimis would lead to greater cross border package and parcel shipments for Canada Post, resulting in increased revenue.

#### **Broad Support**

Several businesses and industry associations support an increase to the de minimis threshold. Public letters to then-Ministers of Trade, Ed Fast, and Finance, Jim Flaherty<sup>17</sup> and to then-Minister of Industry James Moore<sup>18</sup>, call attention to the broad range of groups who support a change. Most recently, a group of 12 Canadian SME owners sent an open letter to Prime Minister Justin Trudeau, insisting that “more needs to be done to ensure our businesses are internationally competitive in the years ahead – including an increase to Canada’s de minimis threshold.”<sup>19</sup>

The recent the C.D. Howe Institute report highlights the inefficiency of the current de minimis threshold and demonstrates how raising the threshold could alleviate inefficiencies for SMEs while yielding cost savings for government, consumers and businesses.

US de minimis recently increased from \$200 USD to \$800 USD, and twelve US Senators signed a joint letter to Ambassador Doer calling on Canada to increase its de minimis, “to bolster increased economic growth for both countries.”<sup>20</sup>

Several major international organizations have also called for increases to de minimis thresholds globally. In 2011, the Asian Pacific Economic Cooperation released a joint statement, agreed to by all members (including Canada), calling on member states to implement “commercially useful de minimis values in our economies that will exempt low-value shipments from customs duties and streamline entry documentation requirements.”<sup>21</sup> Additionally, the International Chamber of

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<sup>15</sup>[https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed/Commentary\\_409.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_409.pdf)

<sup>16</sup><https://www.ebaymainstreet.com/sites/default/files/canada-commerce-3.pdf>

<sup>17</sup>[http://www.naylornetwork.com/pim-nwl/pdf/de\\_minimis\\_Coalition\\_letter\\_-\\_Nov\\_13.pdf](http://www.naylornetwork.com/pim-nwl/pdf/de_minimis_Coalition_letter_-_Nov_13.pdf)

<sup>18</sup>[http://www.manufacturingourfuture.ca/\\_uploads/media/4ykr83kv4.pdf](http://www.manufacturingourfuture.ca/_uploads/media/4ykr83kv4.pdf)

<sup>19</sup><http://www.ebaymainstreet.com/canada-letter>

<sup>20</sup>[http://www.ebaymainstreet.com/sites/default/files/2015-03-02\\_de-minimis-threshold-letter.pdf](http://www.ebaymainstreet.com/sites/default/files/2015-03-02_de-minimis-threshold-letter.pdf)

<sup>21</sup>[http://www.apec.org/Meeting-Papers/Leaders-Declarations/2011/2011\\_aelm.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/2011/2011_aelm.aspx)



Commerce has called for all governments to implement a “commercially significant *de minimis* value of US \$1,000.”<sup>22</sup>

In 2016, Nanos Research conducted a survey on behalf of the Canadian American Business Council<sup>23</sup> regarding Canadians’ views on Canada’s *de minimis* level. The petition to "dump the duties" was presented in the House of Commons, which received 15,257 signatures, called on the federal government to increase Canada's *de minimis*. The results of the survey found that 76% of Canadians support raising the duty-free limit to \$200 CAD. This petition had the seventh most respondents when compared to all official House of Commons e-petitions to date.

### **How eBay Sellers are Contributing to the Overall Growth of E-Commerce in Canada**

For more than a decade, the eBay Entrepreneur of the Year Awards has been recognizing Canadian eBay sellers who run successful online businesses and contribute to the overall growth of e-commerce in Canada. Below are two profiles of 2016 and 2017 award winners who respectively wrote to over 70 Members of Parliament (MPs) emphasizing the importance of raising Canada’s *de minimis* threshold.

#### **Adrien Lavoie; Riding: Hull-Aylmer (2016 eBay Entrepreneur of the Year Award Winner for best Micro-Multinational Business)**

In 2011, Adrien Lavoie (eBay username: barhop) started his business in the basement of his parents’ house selling skateboard-related merchandise. As part of his growth strategy, he began selling online through eBay and quickly saw success, allowing him to build a 2,100 ft<sup>2</sup> bricks and mortar store in Gatineau, Québec. Two years later, at 24 years old, he won eBay’s Young-Preneur award. Since then, Adrien has evolved his business to focus on sneakers, carrying styles from top brands like Reebok and Adidas that are less readily available in international markets. Selling globally is the key to Adrien’s success: 90 per cent of his sales are from outside of Canada, including the U.S., France, Australia, Germany, the U.K. and Japan. In fact, he regularly ships items to more than 45 countries. To-date, Adrian has sold more than \$1 million worth of shoes and apparel on eBay, and his year-over-year sales continue to double.

In his letter to MPs, Adrien highlighted the real impact the current Canadian *de minimis* regime has on his business:

*The inconsistent enforcement and application of Canada’s \$20 threshold creates red tape for small businesses that trade internationally. For instance, small businesses are forced to deal with significant administrative expenses as we manage returns from our international*

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<sup>22</sup>[http://www.iccwbo.org/Advocacy-Codes-and-Rules/Document-centre/2015/ICC-Policy-Statement-on-Global-Baseline-De-Minimis-Value-Thresholds-\(2015\)/](http://www.iccwbo.org/Advocacy-Codes-and-Rules/Document-centre/2015/ICC-Policy-Statement-on-Global-Baseline-De-Minimis-Value-Thresholds-(2015)/)

<sup>23</sup><http://www.newswire.ca/news-releases/poll-76-of-canadians-want-to-raise-canadas-de-minimis-level-to-200-598206581.html>



*customers. In my experience, Canada's de minimis acts as a real, and unnecessary friction on businesses looking to take advantage of the global growth in ecommerce.*

**Kalina Koleva & Maria Petrova; Riding: Ville-Marie – Le Sud-Ouest – Île-des-Soeurs (2017 eBay Entrepreneur of the Year Award Winner for best Micro-Multinational Business)**

Kalina and her mother Maria (eBay username: RunwayCatalog) turned their passion for fashion into a full-time online business that now employs all of the women in their family. Leveraging their relationships with Canadian brands and wholesalers, they began selling moderately priced shoes and accessories to customers across Canada. However, their business took off when they tapped into international trade opportunities facilitated by online marketplaces. Today, 95% of their sales are from outside of the country; Kalina and her team regularly sell to markets including the US, the Middle East, and Europe, and their inventory includes everything from Canadian products to high-end global brands. The success of their multi-million-dollar online business is just the beginning, as they are now leveraging some of the profits to start their own Canadian fashion label.

In their letters to MPs, Kalina and Maria noted how increasing the de minimis threshold would help their small business thrive:

*For small businesses like ours, increasing the de minimis would provide greater certainty, reduce administrative costs, and allow us to better enjoy of the benefits of global trade.*

## **Conclusion**

In short:

- **The de minimis is only \$20, and has not increased since 1985, meaning it has not had any sort of inflation indexing in 33 years;**
- **Canada is at the bottom of the list internationally, ranking alongside Uganda and Jordan - making it one of the lowest in the world, and among the lowest of the industrialized countries (both the U.S. [\$800 U.S.] and Mexico [\$300 on postal shipments] have significantly higher thresholds); and**
- **A low de minimis makes importing business inputs far more expensive for Canadian small businesses.**

The Canadian government should look at how Canada's low de minimis threshold affects small and medium-sized businesses looking to grow through e-commerce, and champion policies that promote small business exporting. The NAFTA renegotiations provide an opportunity to update this regulation so that it reflects the modern economy and remove red tape for Canadians SMEs.

Increasing Canada's de minimis threshold from its current rate of \$20 would not only yield significant benefits for government, business and consumers, it would align Canada with the



online economies of other industrialized countries, all while having a net positive effect on the treasury. While eBay closely monitors the developments of the NAFTA renegotiation, we also welcome the opportunity to answer any of your questions.