European Commission

Assessment of the application and impact of the VAT exemption for importation of small consignments

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Abstract

The European Commission has requested EY to perform an "Assessment of the application and impact of the VAT exemption for importation of small consignments".

The European Commission seeks to evaluate to which extent the VAT exemption for importation of small commercial and private consignments is having an impact on EU businesses, including on small and medium enterprises (SMEs).
The study has four main objectives:

- To report on and assess the situation in each Member State as regards the implementation of the VAT exemption for small consignments.
- To assess the existing procedures used by each Member State and by stakeholders in dealing with the importation of small consignment.
- To present statistics on the importation of small consignments in each Member State and at EU level for a specific period.
- To provide an analysis on the distortion of competition created by the small commercial consignment exemption.

Résumé

La Commission Européenne requis EY d'effectuer "Une évaluation de l'application et de l'impact de l'exonération de la taxe sur la valeur ajoutée de certaines importations d'une valeur négligeable".

La Commission Européenne souhaite évaluer dans quelle mesure l'exonération de la taxe sur la valeur ajoutée des importations commerciales et particulières d'une valeur négligeable a un impact sur les entreprises de l'UE, y compris sur les petites et moyennes entreprises (PME).

L'étude a quatre objectifs principaux:

- De présenter et d'évaluer la situation dans chaque État membre en ce qui concerne l'implémentation d'une exonération TVA pour les petits envois.
- D'évaluer les procédures existantes employées par les Etats membres et les parties prenantes concernant l'importation de petits envois.
- De présenter des statistiques sur les importations de petits envois dans chaque Etat membre et au niveau de l'UE pour une période spécifique.
- De fournir une analyse sur la distorsion de la concurrence créée par l'exemption des petits envois commerciaux.

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B2B	Business to business
B2C	Business to consumer
C2C	Consumer to consumer
CN	Combined nomenclature
CN 22/ CN 23	Customs declaration form CN 22/23
CJEU	Court of Justice of the European Union
ECU	European currency unit
EU	European Union
GDP	Gross domestic product
GST	Goods and Services Tax
HMRC	Her Majesty's Revenue & Customs
LVCR	Low value consignments relief
RAVAS	Retailers against VAT avoidance schemes
SAD	Single Administrative Document
SME	Small and medium-sized enterprises
UPU	Universal Postal Union
VAT	Value Added Tax

PART I

Review of the provisions and procedures in the EU regarding the customs duty relief and VAT relief for consignments of negligible value

1. Introduction, Mandate and Methodology

1.1 Introduction and Mandate

The VAT Directive[1] establishes a common system of VAT applicable in all Member States. According to the Directive the importation of goods is one of the events subject to VAT. VAT is applied upon importation at the moment that goods are 'imported' into the EU and are entered into 'free circulation'. The VAT rate is the same rate as the one applicable to the domestic supplies of similar goods in the importing Member State.

Various VAT directives provide, mainly for practical simplification purposes, for a VAT exemption on the importation of small consignments (low value consignments relief, hereinafter 'LVCR'). For the purpose of this report we have identified the following relevant reliefs:

- Commercial consignments[2] not exceeding the threshold set by each Member State at an amount which shall be between EUR 10 and 22. Member States may exclude goods which have been imported by mail order from this exemption. In any situation, exemption shall not apply for imported consignments of alcoholic products, perfumes and toilet waters and tobacco and tobacco products; and

- Consignments of a non-commercial character[3] sent from a third country by a private person to a private person in an EU Member State with a total value not exceeding EUR 45. These deliveries are of an occasional nature and contain only goods intended for the personal or family use by consignees, and are sent by the consignor to the consignee without consideration or payment of any kind.

The Commission received various indications, including some complaints from industry associations and tax authorities, that the current provisions for the application of VAT reliefs for imports of consignments with a low value allow for a potential distortion of competition. The main reason would be that imported goods below a certain value (the small commercial consignments) are VAT free whereas the same goods purchased within the EU could be charged with up to 27% of VAT (depending on the VAT rate applicable in each Member State).

In its Communication on the future of VAT[4], the Commission acknowledged that a number of provisions in the VAT Directive are *"outdated and do not take the single*

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[1] *Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax*

[2] *Council Directive 2009/132/EC of 19 October 2009 determining the scope of Article 143(b) and (c) of Directive 2006/112/EC as regards exemption from value added tax on the final importation of certain goods.*

[3] *Council Directive 2006/79/EC of 5 October 2006 on the exemption from taxes of imports of small consignments of goods of a non-commercial character from third countries.*

[4] *Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the future of VAT Towards a simpler, more robust and efficient VAT system tailored to the single market, COM(2011) 851 final, 6 November 2011*

market aspect sufficiently into account". In this respect, among other actions to be launched in the medium term, the Commission also highlighted that "*a level playing field for non-EU and EU suppliers also has to be ensured. The treatment of small consignments and other internet sales is to be tackled in this context.*" This will also contribute to the overall goal of achieving a simpler, more robust and efficient VAT system, adapted to the single market and challenges of the modern economy as outlined in the Report of the Commission Expert Group in May 2014 on Taxation of the Digital Economy[5]. Within this Report the Group recommends *"to abolish the small consignments exemption and that this should be pursued as a priority in tandem with the development of the broader One Stop Shop also applying to other small consignments for which no customs duties are due".*

In this context, there is a need to assess the viability of the existing small commercial and non-commercial consignments exemption on the final importation and its impact on EU businesses, including on small and medium enterprises (SMEs).

The scope of this report is to outline and compare the existing country specific provisions and operational procedures with regard to the mentioned VAT reliefs as well the customs relief for imports of consignments of negligible value[6]. The report includes the following main components:

- General comments and findings when comparing and reviewing the provisions and procedures in the 28 EU Member States regarding the mentioned customs and VAT reliefs.

- Summary tables – in the form of Annexes - that allow for a visual comparison with regard to the abovementioned bullet point.

- A high level comparison of the applicable procedures in selected third countries: the United States of America, Norway and Switzerland.

- The review of existing procedures, implementation, simplifications and restrictions used by Member State administrations and stakeholders for the reliefs.

- The quantitative analysis of the imports of small consignments covered by the reliefs.

- The qualitative assessment of the impact on the distortion of competition vis-à-vis EU business at Member State and EU level.

It should be noted, and it was confirmed during any communications with third parties, that due to confidentiality issues raised by some stakeholders, the information obtained during the data collection/interview process will be kept anonymous for reporting purposes.

[5] *Commission Expert Group Report On Taxation Of The Digital Economy, 28 May 2014*
[6] *Council regulation 1186/2009 of 16 November 2009 setting up a Community system of reliefs for customs duty*

1.2 Methodology

In order to achieve the purpose of this first part of the study, we have prepared a questionnaire which was to be completed by the EY network in all 28 EU Member States. In addition, we have provided the selected non-EU countries (United States of America, Switzerland and Norway) with a similar though more limited questionnaire.

The aim of these questionnaires was to identify the legislative framework, existing procedures, practices and exemptions that (may) apply for the import of consignments under the customs or under the set VAT threshold. More specifically, we aimed to (this overview is non-exhaustive):

- Understand the established thresholds in all relevant countries;
- Understand the customs clearance process, required documentation and cost associated therewith (high level information was only requested to capture practical experiences);
- Identify the VAT treatment of mail order, including, where available, a national definition of what is seen as mail order;
- Identify product categories and/or geographical territories not covered by a customs/VAT relief;
- Distinguish any particular procedures established for special cases, e.g. conditions for and use of consolidated shipments, provisions on the importation of goods of a non-commercial character.

In addition to the work performed in the outset of the study, we prepared questions for stakeholders including the competent customs and VAT authorities in 8 EU Member States (Belgium, Czech Republic, Denmark, France, Germany, the Netherlands, Spain and the United Kingdom) as well as three postal operators providing the universal postal service and three courier firms. In order to capture a complete picture we also sent a limited questionnaire to the VAT Administrations in the remaining 20 EU Member States that primarily focusses on the exemptions regarding mail orders and procedures applied by these Member States.

Both Customs and VAT administrations were invited to provide us with an overview of the procedures (e.g. documentation requirements, verification procedures, etc.) and costs (e.g. IT costs, administrative costs, the cost of a physical verification, etc.) inherent to a standard importation process and an importation process subject to a customs/VAT relief. Moreover, the feedback received from the Administrations enabled us to obtain information on the broader administrative burden for governments in the 8 EU Member States described above and businesses with regard to the importation process and it enabled us to identify similarities and differences in processes and procedures applied by these Member States and potentially identify best practices.

Our questions for the courier firms and postal services helped us to identify how the legislation is applied in practice. More specifically, we have requested information on amongst other things:

- The documentation required in order to distinguish imports with a relief procedures from the standard import process; i.e. to determine the (intrinsic) value of a consignment;
- The customs clearance process, including the declaration(s) and/or required documents that need to be submitted in all scenario's;
- The cost associated with the process that is applied including compliance, administration and collection costs as this information will enable us to calculate an average cost per consignment;
- The impact of physical or administrative verifications and the ratio thereof;
- Existing procedures and the related costs when dealing with special cases, i.e. the different approach of countries with regard to the exclusion of mail orders from the VAT relief, the consolidated shipment of goods, the treatment of certain (excluded) geographical territories or product categories.

As soon as we received input from the courier firms and postal services we did several consultation rounds to ensure that we fully understand the answers provided. The information gathered were analyzed in detail during the last phase of the study.

2. Legislation review[7]

2.1 Customs duty relief for commercial imports of small consignments

2.1.1 Threshold and excluded products in the 28 Member States

Under certain conditions, e.g. when goods are "*of negligible value dispatched direct from a third country to a consignee in the Community*", imports are not liable to customs duties. The Community's own system of reliefs from customs duty is contained in the codified Regulation 1186/2009[8] and in Article 184 of the Community Customs Code[9]. Within the historical context, goods have been deemed of negligible value if their value did not exceed ECU 10. In the meantime, customs duties have been reduced or even abolished for many goods. This, in combination with the increased use of purchases via (internet) mail order, made the customs authorities in charge of clearing these items reach their capacity limit. It was therefore necessary to institute a significant simplification on the customs clearance of small consignments. This was achieved by increasing the maximum value for consignments of negligible value[10]. The current value is set by the Regulation 274/2008[11] at EUR 150.

The review confirmed that the application of the customs duty relief for consignments of negligible value is applied in all EU Member States with an intrinsic value threshold of EUR 150 per consignment. This intrinsic value is the value of the products, and does not include any other cost such as insurance and freight. This relief does not apply to alcoholic products, perfumes, toilet waters and tobacco or tobacco products.

The majority of the Member States apply this customs relief also if the consignments are part of a grouped consignment imported on one import declaration as long as the individual package can be individually identified and has an individual value of less than EUR 150[12]. However we understand that Denmark[13], Croatia, Hungary[14], Luxembourg, Malta, Poland[15], Portugal, Romania, Slovakia[16] only apply this customs relief if the total value of the grouped consignment imported on one import declaration has a total value of less than EUR 150.

[7] Based on the information provided by the EY network and confirmed by Member States' Administrations, postal services and courier firms.
[8] Council Regulation (EC) No 1186/2009 of 16 November 2009 setting up a Community system of reliefs from customs duty, L 324/23
[9] Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code, L 302
[10] Proposal for a Council Regulation amending Regulation (EEC) No 918/83 setting up a Community system of relief from customs duty, COM(2007) 614 final, 17 October 2007
[11] Council Regulation (EC) No 274/2008 of 17 March 2008 amending Regulation (EEC) No 918/83 setting up a Community system of relief from customs duty, L 85/1
[12] In line with ECJ court case C-7/08 (Har Vaessen Douane Service BV v Staatssecretaris van Financiën).
[13] This is based on verbal input we received from the Danish Customs Authorities
[14] Although recognized, ECJ court case C-7/08 in practice is not applied due to challenges from the Hungarian Customs Authorities
[15] Although recognized, ECJ court case C-7/08 in practice is not applied due to challenges from the Polish Customs Authorities
[16] Although recognized, the practical application of ECJ court case C-7/08 by the Slovakia Customs Authorities is not clear

2.1.2 Customs relief regime in non-EU countries

The 3 selected non-EU countries all implemented a customs duty relief for consignments of negligible value, each with their own thresholds. In contrast with the EU system providing a separate threshold for customs and VAT relief on importation, in Switzerland and Norway there is no differentiation between the threshold for customs duty relief and the threshold for the purpose of a VAT relief. In this respect, Switzerland applies a threshold if the customs duty amount, excl. VAT, does not exceed CHF 5 (~EUR 4.16[17]). In October 2014 the Norwegian government proposed to increase the threshold from NOK 200 (~EUR 22.12[18]) to NOK 500 (~EUR 55.30)[19]. However, after discussions it was agreed to set a value threshold of NOK 350 (~EUR 38.71[20]). The US has a value threshold of USD 200 (~EUR 166.07). In the US, the method for determining the value for applying the exemption is based on the "fair retail value," a term which does not in a regulatory sense equate with customs value, but which in actual practice is effectively treated as the customs value. We refer to section 2.2.4 for the VAT relief regime in non-EU countries.

All selected non-EU countries restricted the customs relief for alcoholic products, tobacco or tobacco products. Switzerland also excludes weapons, medical drugs, animals and animal products for application of the relief. Norway also excludes weapons and medical drugs from the relief. The US also excludes perfumes from the customs relief.

Simplifications to submitting the declaration exist in all countries allowing the standard customs declaration to be replaced by shipping documents (e.g. bill of lading) and value documents (e.g. invoice) in the event that the shipment qualifies for the customs relief.

In Switzerland and Norway no fees or charges should become due in the event that imports qualify for the customs and/or VAT relief. However, if the consignment is above the exemption threshold generally a declaration fee is charged. In the US, the fees would differ depending on the operator that performs the postal handling.

2.2 VAT relief for commercial imports of small consignments

2.2.1 Threshold established in the 28 Member States

The VAT threshold was first implemented in 1983 by means of Council Directive 83/181/EEC[21]. Initially, the main purpose was to facilitate the movement of (low value) goods between Member States. The relevant provisions in this Directive allowed Member States to relieve imports of goods of a total value not exceeding 22 [ECU] from VAT. The exemption was not applicable to alcohol, perfumes and toilet waters, tobacco and tobacco products. This threshold was modified by Directive 88/331/EEC

[17] *Currency rate 1st January 2015: 1 EUR = 1.2022 CHF*
[18] *Currency rate 1st January 2015: 1 EUR = 1.2043 USD*
[19] *http://www.statsbudsjettet.no/upload/Statsbudsjett_2015/dokumenter/pdf/chapter1_tax_budget2015.pdf*
[20] *Currency rate 1st January 2015: 1 EUR = 9.0420 NOK*
[21] *Directive 83/181/EEC of 28 March 1983 determining the scope of Article 14 (1) (d) of Directive 77/388/EEC as regards exemption from value added tax on the final importation of certain goods, Article 22, O.J. L 105*

which set a range between 10 ECU up to 22 ECU and introduced an option for Member States to exclude goods imported on mail order from this exemption. It should be noted that the introduction of the VAT threshold dates back from an era in which there was not yet an EU Single Market, and moreover, there was no sign of digitalization, both in terms of customs solutions nor e-commerce (with the exception of mail order catalogues). Under currently applicable version of Directive 2009/132/EC which replaced Directive 83/181/EEC, the VAT threshold for Member States to implement is still set at a minimum of EUR 10, including the possibility to increase this value up to an equivalent of EUR 22. In this respect, however, Member States should take into account that in accordance with recital 5 of the Directive 2009/132/EC "The exemptions on importation can be granted only on condition that they are not liable to affect the conditions of competition on the market".

When reviewing the application of the VAT relief for imported goods of negligible value we identified that all countries apply this relief and most countries confirmed that the threshold is EUR 22 or the equivalent amount in local currency[22]. The countries that deviate from the threshold of EUR 22 are Bulgaria (BGN 30 ~EUR 15.34[23]), Croatia (HRK[24] 160~EUR 20.85), Cyprus (EUR 17), Denmark (DKK 80~EUR 10.75 [25]), Hungary (HUF[26] 6 000 ~EUR 18.82), Romania (EUR 10) and United Kingdom (GBP 15 GBP ~EUR 19.23[27]). Please find in Annex A an overview of the national legislations translated into English of the implementation of the VAT relief for imported goods of negligible value.

The VAT Committee discussed whether the value threshold in Directive 2009/132/EC reflects the 'total value' of the products or the VAT taxable amount of goods. According to this discussion, the value for determining the application of the VAT relief for imported goods of negligible value does not include incidental expenses (e.g. commission, packing, transport and insurance). This makes it possible to avoid the distortions that could arise as a result of the same goods being exempt or taxed upon importation depending on the cost of transport and/or other costs incurred in that respect[28]. In effect, this implies higher thresholds for importation of small consignments.

The input from the various EY offices however suggests that the view taken on 'total value' is not consistently applied throughout the various Member States.

Based on feedback from the EY network we conclude that the value for application of this VAT relief in Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Germany, Italy, Lithuania, Luxemburg and the Netherlands appears to be based on the intrinsic value of the goods. As such, this value determination is similar to the value determination for the customs relief[29] as addressed above.

[22] *In addition to 300 Swedish Krona, the national legislation in Sweden explicitly mentions EUR 22.*
[23] *Currency rate 1st January 2015: 1 EUR = 1.9558 BGN*
[24] *Currency rate 1st January 2015: 1 EUR = 7.6713 HRK*
[25] *Currency rate 1st January 2015: 1 EUR = 7.4434 DKK*
[26] *Currency rate 1st January 2015: 1 EUR = 318.75 HUF*
[27] *Currency rate 1st January 2015: 1 EUR = 0.7800 GBP*
[28] *Discussions in the 93rd VAT Committee meeting of 1 July 2011 – working paper no 686*
[29] *Council Regulation 1186/2009 setting up a Community system of reliefs from customs duty*

All other EU Member States (Austria, Croatia, Cyprus, France, Greece, Hungary, Ireland, Latvia, Malta, Poland, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom) appear to apply this VAT relief based on the general rules for determining the import value for VAT purposes and as a result include transport, packing and insurance costs as well as in some cases[30] the handling cost. By using the general rules for determining the import value for VAT purposes, any transport and potentially also handling charges will influence the actual value of the products that can benefit from this VAT relief.

This inconsistency is confirmed on the basis of the inputs from the VAT Administrations of the EU Member States. It has been identified that in addition to the inconsistency in the determination of the value threshold between the various Member States, a mismatch between the interpretation of the national Administrations and practical application of the operators exists. Please find in Annex B an overview of the applicable threshold and the method for determining the threshold value per country as identified by the practical operators and the VAT Administrations.

This difference of establishing the value for application of this VAT relief in itself leads to different interpretation and implementation of the applicable thresholds.

2.2.2 Exclusions from the VAT relief in the 28 Member States

2.2.2.1 General exclusion of certain products subject to excise duties

In accordance with the Article 24 of Directive 2009/132/EC the exemption shall not apply to alcoholic products, perfumes, toilet waters and tobacco or tobacco products. All EU Member States do not allow the VAT relief for these products. In addition to the general restrictions, Croatia excluded tea from the VAT relief.

2.2.2.2 Treatment of mail order in the 28 Member States

2.2.2.2.1 Mail order - Territories excluded

Except for the United Kingdom (the Channel Islands) none of the 28 EU Member States have excluded any specific geographical origins from application of the VAT relief for imported goods of negligible value.

United Kingdom's HMRC have mentioned that they have carried out an internal review of the impact of LVCR, which resulted in the removal of this relief from the Channel Islands. HMRC have articulated that the documents are confidential and cannot be disseminated. The proposal which was presented to the UK Parliament[31] and a briefing paper circulated in the House of Commons[32] outlined that the supply of mail order goods to UK customers from the Channel Islands is affecting the conditions of competition on the UK market. It was indicated that the removal of the threshold would have a positive impact on competition as it levels the playing field between UK businesses and those with operations based in the Channel Islands.

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[30] *France*

[31] *VAT: Low Value Consignment Relief, HMRC, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192130/vat_low_value_consignment_relief.pdf*

[32] *VAT on postal packages, SN4155, Antony Seely – Business & Transport Section, 11 September 2013,* www.parliament.uk/briefing-papers/SN04155.pdf

2.2.2.2.2 Mail order – certain products excluded

In the early millennium, the Danish Tax Authority found that some publishing companies were re-routing the distribution of certain magazines and periodicals via a third country. Random checks showed that many consignments were printed in the EU, exported at a zero-rate of VAT to a country outside the EU (mostly the Åland islands and Norway) and from there sent to subscribers in Denmark free of import VAT as each consignment was valued below the VAT threshold. To put an end to this form of VAT avoidance, Denmark has successfully requested derogation in 2005 to exclude from the exemption certain magazines and periodicals sent to private individuals via territories not covered by the former applicable VAT Directive[33].

Recently, the Danish government has announced draft legislation to amend the VAT Act in a way that import VAT will be charged on Danish-language magazines, journals and the like that are printed and sent to Denmark from non-EU countries. Magazines written in other languages and which have a value not exceeding DKK 80 will continue to be VAT-exempt if they are printed outside the EU. The proposal will place Danish-language magazines, journals and the like imported from non-EU countries on an equal VAT footing with Danish-language magazines, journals and the like printed in the EU. In its notification towards the Commission[34], the Danish government explained that the introduction of import VAT on Danish-language magazines ensures that decisions of whether or not to print Danish-language magazines inside or outside the EU will not be affected by VAT circumstances. The proposed amendments are expected to be enforced as from 1 July 2015.

The ministry of Finance in Finland has recently published new rules in order to remove the low-value consignment relief for mail order imports of newspapers and magazines published once a week or less frequently which are dispatched from the Åland Islands. Moreover, the provision providing for the threshold of EUR 5[35] below which duties and taxes on imports are not collected will not be applied to such imports. According to the Finnish Administration this is due to the flow of these specific goods. Currently, many newspapers and periodicals are printed in Finland, then sent to the Åland Islands for eventual addressing and mailing and subsequently sent back to Finland with the aim to obtain a VAT advantage. The new rules are applicable as from 1 January 2015.

2.2.2.2.3 Countries applying general exclusion of mail order

Based on the feedback received from the EY network, France excludes in full the LVCR for goods imported on mail order. The rationale was to prevent abuse. Article L121-16 of the French Consumer Code defines mail order as any agreement entered into force between a professional and a consumer, under an organized distance sales system, without the simultaneous physical presence of the trader and the consumer, with the exclusive use of distance selling techniques. In practice it covers orders made by

[33] OJ L 78 of 24 March 2005

[34] Notification ref. 2015/106/DK, Draft Act to amend the VAT Act (Import VAT on Danish-language magazines, journals and the like sent from non-EU countries and authorisation for relaxations and exemptions concerning the invoicing obligation)

telephone, internet (merchant web sites), catalogues, whereby the seller is in charge of transporting the goods to the customers.

Sweden excludes goods imported on mail order from the VAT relief for the importation of small consignments. This exclusion, however, does not cover foreign periodicals, so that imports of foreign periodicals with a value lower than EUR 22[36] are not subject to VAT. Goods are considered as imported on mail order when they are ordered e.g. by mail, telephone or Internet from a professional/business by a private individual/consumer. We understand that mail order is excluded due to the fact that it constitutes a form competition between the market for mail order and retail sales. The exclusion of mail order in the current Swedish legislation has been applied since 1 January 1995, the date when Sweden joined the EU.

In Poland, the LVCR is not applicable to goods imported by "dispatch order" with the aim to prevent distortion of competition between EU and non-EU companies performing those dispatch orders. Furthermore, the measure was implemented to avoid transfers of business outside the EU with the sole purpose to obtain benefits from the exemption on importation of small consignments. There is no direct definition of the "dispatch order" in the Polish VAT Act. However, based on the literal meaning of this expression in Polish, the relief will not be applicable for goods ordered e.g. via Internet portal / shop and delivered from outside the EU to a Polish customer. There should be two main factors that make a "dispatch order":

i) the purchase order is not placed directly, but via telephone, mail, e-mail, fax, internet, etc.; and

ii) the goods are delivered by a specialized courier company / postal service provider, not by the seller directly.

The exclusion has been applied since 1 May 2004, i.e. the date of the Polish accession to the EU.

The Danish VAT Administration states that only magazines, periodicals or the like, which after printing within the EU are sent outside the EU and subsequently dispatched to private individuals in Denmark, are excluded from VAT relief on the basis of the "mail order" provision in article 23 of Directive 2009/132/EC. The exclusion was introduced, as the VAT relief was used to sell magazines without VAT to private individuals. Danish magazines were printed within the EU and transported to places outside the EU, from which they were sent directly to private individuals in Denmark. According to the Danish Administration, the exclusion was applied as of 1 June 2005 and is still in force. There is currently a proposal to remove the LVCR for all Danish language magazines imported from outside the EU as mentioned in section 2.2.2.2.

[35] *In accordance with article 101 (b) of the Finnish VAT Act, VAT liability amounting to less than or equal to EUR 5 will not be collected.*
[36] *The official currency in Sweden is SEK and the legislation outlines the threshold in SEK 300, but further restricts this to (the equivalent of) EUR 22.*

Despite the above described legal restrictions on mail order, these restrictions are not really complied with in practice due to a combination of factors: increased numbers of consignments due to the increase in e-commerce trade, reduced verifications and physical checks, etc. As a result, even in countries where goods imported as mail order are not exempt, there would be instances of mis-declaration (goods incorrectly labelled as "gifts") or the mail order exception would not consistently checked by competent authorities.

2.2.2.2.4 Countries which excluded mail order in the past

Three Member States confirmed that special provisions with regard to mail order exclusion were removed from the national legislation. Belgium excluded the LVCR for all goods imported on mail order until 2004. The provisions regarding mail order were removed from the Belgian legislation due to economic reasons. The goal was to avoid a relocation of some economic operators of the sector in neighbouring Member States which do not apply such exclusions.

The Luxembourg Administration outlined that the main reason for the exclusion had its origin in the situation as it was prior to 1 January 1993 (introduction of the internal market rules), the date when customs borders disappeared in the EU and mail orders sent to Luxembourg from other EU-countries fell under the distance selling provisions of the VAT directive. Before 1993 exempting mail orders from outside the Luxembourg territory, which at that time would have been mainly from the surrounding neighbouring countries, was deemed to entail a distortion of competition for businesses established in Luxembourg and supplying the same goods within the country. When the exclusion was finally removed in 2011, it was also deemed that if goods were ordered to be sent by mail from countries outside the EU to Luxembourg, most of these goods would probably have an import value higher than EUR 22 taking into consideration the costs of transport.

Finally, in Portugal the mail order exclusion is removed from Portuguese legislation since 2009. The Portuguese authorities justify this change as a way to optimize the cost-benefit scheme since it was felt that the cost of collection of VAT on the import created costs that exceeded the actual tax revenue from such an import. In this respect, the removal of the mail order exclusion provides a simplification of the procedures for the customs clearance of goods.

2.2.2.3 View of national postal services and courier firms

From the responses provided by the national postal service providers and courier firms we understand that there is an inconsistency with regard to the exclusion of mail order importations from the low value consignments relief, notably on what is laid down theoretically and what the daily practice is.

According to the courier firms, France and Poland are the only Member States that have special provisions in place for the customs clearance of consignments in the event that these consignments are imported via mail order. In Poland, that has excluded goods imported on mail order, the relevant courier firm explained that there is a clear lack of consistency between the various customs offices in this Member State applying the specific mail order provisions.

2.2.3 Indirect importation – place of supply rules

A distinction must be made between the VAT treatment of the importation and of the supply of goods of negligible value. Despite the relief of VAT on the importation, the supply of goods of negligible value can be subject to VAT if the place of supply of goods is in a Member State. This is due to the fact that the LVCR is applicable only to the importation and not to the supply of goods (as a separate tax event). It is therefore important to determine the place of supply of the supply of goods of negligible value when the LVCR is applicable.

The place of supply of goods is the country of dispatch of the goods. This would generally be the third country from which the goods of negligible value are dispatched (article 32 paragraph 1 Council Directive 2006/112/EC- hereafter "VAT Directive"). However, the place of supply is shifted to the Member State of importation if the supplier is designated or recognized under Article 201 VAT Directive as liable for payment of VAT on the importation (article 32 paragraph 2 VAT Directive). Pursuant to this rule, if a supplier (established in the EU) dispatches goods e.g. from Switzerland to Germany and releases the goods for free circulation in Germany in his own name (the supplier is customs declarant and customs debtor) and is thus liable for import VAT, the place of supply is not Switzerland but Germany. The shift of the place of supply to the Member State of importation can also apply to suppliers which are not established in the EU. A non-EU person cannot act as customs declarant. Such suppliers can be indirectly represented and consequently become the debtor for customs duties and also liable for import VAT.

All EY offices, except Finland, Latvia and the United Kingdom, confirmed that the place of supply of imported goods of negligible value is in the EU Member State of import if the supplier is liable for import VAT[37]. The United Kingdom and Latvia responded that the place of supply would nevertheless be the country of the initial dispatch (i.e. the non-EU country). Finland did not provide an answer in the absence of explicit legal sources. This view has also been confirmed by the national tax administrations that answered to the questionnaire. A particular aspect of the place of supply occurs in the indirect importation of goods of negligible value (importation in one Member State and subsequent onward delivery to another Member State for delivery to the final customer).

Article 33 paragraph 2 VAT Directive states that "Where the goods supplied are dispatched or transported from a third territory or a third country and imported by the supplier into a Member State other than that in which dispatch or transport of the goods to the customer ends, they shall be regarded as having been dispatched or transported from the Member State of importation."

Based on the information provided by the EY offices, in the event of indirect importation it appears that these rules are not consistently applied in practice. The

[37] *In Germany, this view is supported by a judgement dated 21.3.2007.*

variety of answers suggests that there is a difference in the interpretation of the phrase "*goods imported by the supplier*" and that the Member State of final destination cannot automatically be the place of supply just because release for free circulation occurred in another Member State. Additional conditions such as whether "goods imported by the supplier" means that the supplier was "liable for payment of VAT on the importation" plays a decisive role. These differences are also reflected in the Guideline resulting from the 100th meeting of the VAT Committee[38]. In circumstances described in article 33 paragraph 2 VAT Directive, all national tax administrations that answered to the questionnaire (except one) stated that the place of supply of goods is the Member State of final destination (but it was still not defined what "imported by the supplier" means).

All Member States except two[39] apply LVCR in the event that goods are imported into their respective Member State and subsequently transported to another Member State for final delivery to a customer.

2.2.4 VAT relief regime in non-EU countries

The United States does not levy VAT/GST and therefore did not respond to this section. It was noted that the US does not apply sales tax on imports, however, certain individual states assess use tax on the importation of goods but this is not in scope of this study.

With reference to Section 2.1.2, Norway and Switzerland both implemented a relief of VAT upon importation for consignments of negligible value. The value threshold applicable is similar to the value threshold set for customs duty relief purposes. Both countries also allow the relief for products entered into the country under mail order.

Similar to the customs regime certain products are excluded from this exemption. See Section 2.1.2 for more details on these exemptions.

2.3 Customs and VAT relief for non-commercial imports of goods

2.3.1 Threshold and exempted products

A separate relief upon importation of non-commercial consignments not exceeding EUR 45 is provided in Directive 2006/79/EC for import VAT and in the Regulation 1186/2009 for customs duties. The review highlighted that the application of both the customs relief as well as the VAT relief for imported consignments of non-commercial character is applied in all EU Member States with a threshold of EUR 45 total value per consignment. Please find in Annex C an overview of the national legislations translated into English of the implementation of the VAT relief for imported goods of non-commercial character.

All EU Member States apply this VAT relief also in the event the goods are imported (released for free circulation) in their country and then forwarded in free circulation to a different Member State for final delivery.

[38] *Document B – taxud.c.1(2014)1870542 – 798*
[39] *France and the Netherlands (based on information from the national tax administrations).*

Various Member States apply quantitative restrictions in accordance with Article 27 of Council Regulation 1186/2009. The products for which quantitative limits are set include alcohol and tobacco products, perfumes and toilet waters, coffee and tea products. Denmark, Finland, Ireland and Lithuania apply a full exclusion from the VAT relief for imported consignments of non-commercial character for some of the products mentioned above. For a complete overview of the applicable restrictions and limits per country we refer to Annex D.

Except for the exclusion of Helgoland[40] by Austria, Belgium, Germany, Italy and Malta none of the other EU Member States have excluded any specific geographical origins from application of the VAT relief for imported goods of a non-commercial character. In this regard, the exclusion of Helgoland is due to it being no part of the EU customs territory.

2.3.2 Customs and VAT relief in non-EU Countries

Switzerland and Norway apply the LVCR for non-commercial consignments. The threshold is defined in reference to the value of the goods (CHF 100 (~EUR 83.18) for Switzerland and NOK 1 000(~EUR 110.59) for Norway).The threshold for Norway has recently increased from NOK 200. Alcoholic products, tobacco and tobacco products are excluded in both countries. Concerning the verification policy, the customs authorities will do random controls.

2.3.3 Import procedures for non-commercial imports of goods and practical application

The eight Customs Administrations questioned by EY have all indicated that the practical procedures to be followed for the importation of non-commercial consignments are similar to the procedures involving the importation of commercial goods with a value below the VAT threshold. This implies that with regard to the customs clearance process, in practice all EU Member States allow for a simplification to the Single Administrative Document (SAD) by means of a CN 22/23 form under International Postal Agreements, a verbal declaration or by the sole act of crossing the border.

In this regard, the courier firms and national postal service operators have confirmed that in the majority of Member States the practical clearance procedures used are similar to the procedures which are used for the clearance of commercial consignments with a value below the VAT threshold, i.e. in general an electronic or paper manifest needs to be submitted and subsequently the goods will be cleared verbally upon agreement by the Authorities. In Austria, Denmark, Germany, Lithuania, Luxembourg and Italy the courier firms are required to submit a formal declaration in the form of a simplified SAD with the mentioning of customs procedure code 'C08' in box 37(2)[41].

[40] Although not explicitly stated by the respective EY offices, there are reasons to believe that the exclusion of Heligoland from the relief is based on Article 251 of Council Regulation (EC) No 1186/2009.
[41] In accordance with the SAD guidelines published on the Commission website (http://ec.europa.eu/taxation_customs/customs/procedural_aspects/general/sad/article_5314_en.htm), customs procedure code C08 is used to identify consignments sent from one private individual to another.

We refer to sections 3.1.1 and 3.1.2 for a more detailed analysis of the procedures involving commercial goods with a value below the VAT threshold.

3. Review of procedures for imports of small consignments

3.1 Imports procedures for commercial small consignments

3.1.1 Customs clearance procedure

All EU Member States require a formal customs declaration for the importation of small consignments (below the EUR 150). The standard procedure applied in all EU Member States is the use of a Single Administrative Document (SAD).

However, for consignments of negligible value under the VAT threshold, not all EU Member States[42] require a formal customs declaration. Further simplifications for the customs clearance procedure apply in certain countries. The customs declarations for courier services of consignments of a value of less than EUR 22 in Belgium, Czech Republic, Estonia, Italy[43] and Slovakia can be done verbally (without using SAD or CN22). In Germany, Croatia, Luxemburg and Slovenia consignments of a value of less than EUR 22 are considered to be customs cleared by the sole act of crossing the frontier of the customs territory of the Community. For an overview of the customs clearance procedures in the 28 EU Member States we refer to Annex E.

For consignments of negligible value to be imported under the International Postal Agreements[44] all EU Member States except for Portugal allow the replacement of the SAD with the form CN 22 which should be affixed to the consignment (for an example CN 22 form please see Annex F)[45]. Portugal allows for individual consignments (not being part of a combined shipment) with a value below EUR 1 000 to benefit from a simplification customs procedure called "Verbal or Mail Traffic Customs Declaration".

Courier firms appear to be treated differently from one Member State to the other and face different customs clearance procedures than the traditional postal services companies. Based on information from EY offices in Ireland and Slovakia and Customs Administrations in Belgium, Denmark, Germany and the United Kingdom the use of Postal Service simplifications is restricted to national postal service providers only. Furthermore, UK HMRC and Danish Customs have explicitly addressed that the use of Form CN 22/23 is restricted to authorized postal operator (resp. Royal Mail and Post Danmark). Therefore, the abovementioned countries require courier firms to use the standard procedure (i.e. using SAD) to customs clear to goods. The general observation is that the application of the Postal Service simplification is not applied consistently in all questioned EU Member States.

[42] Except for 9 Member States: Belgium, Czech Republic, Estonia, Italy, Slovakia, Germany, Croatia, Luxemburg and Slovenia
[43] Subject to prior authorisation
[44] Under Universal Postal Union (UPU) Regulations, designated operators have the privilege of making simplified customs declarations by means of the CN 22/23 forms for clearance through customs without delay.
[45] The declaration (CN22) includes a description of the goods (Harmonised System-number), the value, weight, country of origin and whether they are gifts or commercial items. The declarant is legally responsible for the information on the declaration.

In addition to the customs declaration (i.e. the SAD or form CN 22) further documentation is required to be available upon entry of the consignments evidencing that the consignments meet the criteria for application of this customs duty relief. All Member States allow the use of an invoice or other document identifying parties involved as well as description and price for the goods for this purposes. This has been confirmed by the Customs Authorities questioned.

Based on information provided by the Customs Administrations questioned[46], Belgium, Czech Republic and the United Kingdom have published a specific policy notice intended for business operators (courier firms, postal services) and importers, on how to apply the customs and/or VAT relief[47]. The Administrations in Germany, Denmark, France, the Netherlands and Spain have indicated that they did not publish such specific policy notice.

3.1.2 Practical application of the import procedures for various business operators (including description of IT solutions)

As described above, national postal service providers generally use of the form CN 22/23 for customs clearance. On the CN 22/23 form the identification for exemption purposes is performed both on the basis of the goods description as well as the value declared thereof.

Other operators, such as courier firms, generally use the paper based or electronic SAD. One of the elements enabling to identify in the SAD that these goods qualify as goods exempted from customs duty and/or VAT, is the mentioning of the additional customs procedure code 'C07' in box 37(2)[48]. Operators in Belgium and Denmark highlighted that in addition to the 'C07'-code, they also mention a specific generic commodity code under box 33.

In order to evidence that the consignments meet the criteria for the application of the customs and/or VAT duty relief, postal service providers and courier firms are required to maintain and potentially submit various documents to the Customs Authorities. These documents include invoices, manifests, airway bills and any other documentation that contains the information that is relevant to identify whether this relief applies.

The courier firms and national postal services confirmed that, with the exception of the simplifications for national postal service providers, procedures applied by courier firms for the clearance of consignments with a value below the VAT threshold in practice may differ from the theoretical framework outlined in section 3.1.1.

[46] Please note that this analysis has only been performed for the 8 EU Member States that were selected for the comprehensive questionnaire.
[47] For BE, please refer to http://fiscus.fgov.be/interfdanl/nl/citizens/pakket.htm#k
For CZ, please refer to http://www.celnisprava.cz/en/clo/postal/Pages/default.aspx
For UK, please refer to https://www.gov.uk/government/publications/notice-143-a-guide-for-international-post-users/notice-143-a-guide-for-international-post-users
[48] With reference to footnote n° 41, the customs procedure code 'C07' is used to identify consignments of negligible value.

Whereas only nine Member States responded that they allow simplified procedures (verbal clearance or clearance by any other means), the courier firms indicated that in the majority of Member states where they operate, the Member States Customs Administrations allow them to present a paper based or electronic manifest. On the basis of this manifest the consignments will subsequently be cleared verbally. Taking this observation into account, we understand that opposed to the theory, the use of simplified procedures across Member States is more present.

Courier firms operating in Bulgaria, Poland, Romania and the United Kingdom explicitly stated that in these respective Member States, courier firms may be authorized to use a single bulk import entry. Under this circumstance, a manifest is required to enable identification of the individual packages and their final delivery address as well as contains sufficient detail for customs verification purposes.

In Austria, Italy and Luxembourg, courier firms are required to submit a formal declaration in the form of a (simplified) SAD. In Austria and Italy[49], this SAD form is to be presented with a specific generic commodity code allowing the national tax Authorities to make a distinction between taxable and non-taxable consignments.

Table 1 shows a summary of the customs clearance procedures applied for postal operates and courier firms.

Table 1: Customs clearance procedures in practice

Value	Import duties	Customs declaration	
		National Postal service (under the UPU)	Courier firms
Below EUR 10-22	▪ No VAT ▪ No customs duties	CN 22	Declaration by any other act, oral declaration, paper based or electronic manifest, simplified SAD
Above EUR 10-22, but below EUR 150	▪ VAT payable ▪ No customs duties	CN 22	Simplified electronic declaration or SAD
Above EUR 150	▪ VAT payable ▪ Customs duties payable	CN22/23 (depending on the value)	Full or simplified SAD

Source: Postal operators and courier firms contacted,

With regard to the IT solutions put in place to handle to the processing of consignments the courier firms questioned, have indicated that their IT system is linked with the countries' automated customs solution (PLDA, CHIEF, ATLAS, etc.). The entries under the LVCR are captured in the countries' automated customs solution

[49] For the case of Italy, the EORI code of the courier firm shall be inserted as importer. In case the consignment value is above the VAT threshold, the EORI number of the consignee needs to be inserted.

only if the declaration is submitted in the system. In the event of an entry under the International Postal Agreements, or a verbal declaration, no data with respect to this relief is captured in the customs system.[50]

3.1.3 Identification of best practices and/or possible options to simplify the process for declaration and payment of import VAT on small consignments

Generally, import VAT is not included in the price agreed upon at the time of purchase from sellers located outside EU. When import VAT is due, the national postal operators and courier firms seem to apply a similar approach, i.e. the consignee will need to pay the VAT due before they eventually release the consignment. Generally the customs and/or the postal or courier operators will calculate the import duties (VAT and/or customs duties if due) and request the client to pay such import duties before the consignments are released. Information on the clearance procedures on on-line sales is generally available on the customs or postal operators' websites, including a breakdown of applicable clearance fees. According to the general terms and conditions of one of the bigger courier firms the latter *"may in some countries make advance payments of import duty, taxes and penalties or have to post bond on behalf of the importer and where this additional service is provided a local administration fee will be charged to the receiver"*[51].

We provide hereinafter a short review of simplification rules and practices implemented in several Member States with respect to the declaration and the payment of import VAT. Please note that the measures presented below do not necessarily and specifically apply to imports of small consignments.

3.1.3.1 Overview of simplification measures in some Member States

Several Member States have implemented specific arrangements which could be relevant for the specific case of imports of small consignments (especially when the client is a private individual).

In the United Kingdom, HMRC has special prepayment arrangements that allow some overseas traders to charge, collect and pay the import VAT for goods purchased by mail order that would normally be chargeable at the time the goods are imported[52]. These arrangements operate under Memoranda of Understanding signed with certain overseas customs and postal authorities (incl. the Channel Islands, Hong Kong, Singapore and New Zealand). Once authorized, foreign businesses are issued with a unique authorization number which they must show on the customs declaration or packaging. They will include the statement "Import VAT Prepaid". This arrangement avoids the requirement of calculation and allocation of import VAT upon arrival of the shipment in the United Kingdom. A VAT registered business purchasing goods for use in their business needs to keep the outer wrapper with the above statement and the corresponding invoice from the supplier to potentially support their claim to input tax.

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[50] *Customs Administrations in UK, BE and CZ explicitly mentioned that declarations under International Postal Agreements are not inserted nor traced in the customs solution system.*

[51] *http://www.tnt.com/express/en_gb/site/terms_and_conditions.html*

[52] *HMRC Notice 143: a guide for international post user, as referred in footnote 47*

In France, specific agreements can be concluded for mail and parcels sent to private individuals between freight forwarders and the French customs authorities. For example, we were informed that the French Customs authorities agreed with La Poste for a global declaration of import VAT each 10 days.

In Germany, pursuant to an administrative practice, it is possible to prepay import VAT in exceptional cases in order to secure the payment to the tax authorities before the entry of the goods within the territory. In practice this means that a pre-payment / deposit is submitted to the payments office of a main customs office (Hauptzollamt). The main customs office will grant a special number ("XVW- Number") which is entered in the customs declaration. When the goods subject to importation are released for free circulation, the responsible customs office will check with the respective payments office if the deposited sum is sufficient to cover all import duties (customs duties, import VAT and if applicable excise duties). The amount of all duties due will then be deducted from the deposited amount. This practice is most commonly used to pay customs duties which arise in connection with provisional anti-dumping duties, as provisional anti-dumping duties cannot be paid by using a deferment account. Nevertheless, the customs authorities allow this practice as an exception for all kind of duties and import VAT.

In addition to the specific simplification measures, some consideration can be given to existing 'deferment' and 'postponed accounting' mechanisms. Even though these mechanisms are specifically introduced to simplify calculation, allocation and payment of import VAT for VAT registered companies, they could provide simplification for the postal services and courier firms in calculating, allocating and paying import VAT on behalf of private individuals. Please note that for the clarity of this report the term 'postponed accounting' refers to a mechanism where import VAT is paid in the periodic VAT return. This return will include both the VAT due and the deductible VAT (if any). The term 'deferment' implies the possibility to pay VAT with a delay up to 1 month after importation. For a high level overview of existing simplification mechanisms, please refer to Annex G.

3.1.3.2 Best identified practices

Our review shows that several Member States have implemented processes to simplify the calculation, allocation and payment of import VAT. However, not all are relevant to the LVCR in relation to private individuals.

With relevance to the importation of small consignments by private individuals, the pre-payment system such as introduced in the United Kingdom allows a significant reduction of activities and cost upon arrival of the goods in the United Kingdom. For the postal services / courier firms, the requirement to calculate, allocate and pay the import VAT has already been performed. For the tax authorities, individual calculation and issuing of customs and import VAT assessments can be performed more efficiently based on risk assessment criteria.

3.2 Administrative burden of the procedural aspects on imports of small consignments

The information in this section is based mainly on the replies received to our questionnaires addressed to the EY network, tax and customs authorities and various stakeholders (postal and courier firms) in Member States. For an overview of the replies received, please refer to Annex H.

3.2.1 Clearance fees and charges

The review is based on the replies received from the EY network, national postal operators, courier firms and research on the public websites of customs administration or national postal operators. The review has highlighted that the fees and charges that become applicable upon entry of goods via postal or courier services vary significantly from country to country from very low (approximately EUR 0.50 in Romania) to rather high values (approximately EUR 21.5 in Denmark).

Further to the research performed, it appears that presently none of the national postal service operators in the EU Member States charges a clearance fee for consignments with a value below the VAT threshold[53].

In most of the Member States a clearance fee becomes applicable for consignments with a value above the VAT threshold but below the EUR 150 customs duty threshold (i.e. when VAT is payable). In 7 Member States (Austria, Cyprus, Germany, Hungary, Malta, the Netherlands and Slovakia), the postal service operator does not seem to charge any clearance fees in case VAT is payable upon importation, even though the postal operators may still charge a fee in certain circumstances. In 5 Member States (Bulgaria, Czech Republic, Latvia, Poland and Romania) the fee is below EUR 5, in 7 Member States (Greece, Ireland, Italy, Lithuania, Portugal, Slovenia and United Kingdom) such fee is between EUR 5 to 10, in 5 Member States the fee is between EUR 10 and 15 (Belgium, Estonia, Spain, France, Sweden) and in 2 Member States the postal charges exceed EUR 15 (Denmark, Finland).

Based on the feedback received from EY offices in Croatia and Luxembourg, there is no information publicly available on the clearance fees applicable in their country.

Consignments which are entered and customs cleared by courier companies or other freight forwarders may be subject to handling fees which will differ on a case by case basis, however the charges in this situation are mostly not public available information.

Please find in Annex I an overview of the various fees, charges, etc. that have been highlighted in the responses. It should be noted that such fees and charges can be changed by the postal operators, thus information in Annex I reflects the situation at the date of this report.

[53] The post of Slovenia have on 1st June 2014 published the new price list, whereby the former clearance fee of EUR 9.76 has been removed.

3.2.2 Verification ratios and cost of collection for customs authorities

3.2.2.1 Verification

The eight Customs Administrations that received the detailed questionnaire have indicated that they have procedures in place with regard to a physical verification before the clearance of consignments. These procedures are in line with verifications for regular customs declarations. Netherlands (1.2%) and Belgium (2%) Customs Authorities explicitly mentioned that they apply ratios on verifications of goods imported under this relief.

In addition, the postal service providers and courier firms provided a ratio for paper or physical verifications which is based on their practical experience in certain EU Member States.

For an overview on verification we refer to Annex J The general observation is that there are significant differences for the frequency of verifications between the customs offices in the various Member States. Generally, the level of verifications is considered rather low, most likely due to the fact that such verifications are time and resource consuming and due to the lack of available resources with the competent authorities. This leads often to mis-declaration of imported goods, either with lower values being declared or incorrect classification of goods. In this respect, there might be a correlation between the low frequency of verifications and the level of compliance and adverse effect associated therewith. A survey performed by STEWOG[54], for example, highlighted that the VAT foregone as a result of fraud and mis-declaration could be as high as 25% of the total VAT foregone.

3.2.2.2 Cost of collection

From the eight Customs Administrations that received the detailed questionnaire, only one (the Netherlands) has provided an indication of the average cost for processing a customs declaration (EUR 0.13) and an indication of the average cost of verification of a customs declaration (EUR 100) in the event that the customs declaration is selected for verification.

The seven other Customs Administrations mentioned that they do not keep track of costs nor have a realistic indication of cost for processing customs declarations and carrying out verifications of customs declarations.

Czech Republic, Estonia, Finland, Latvia, Lithuania, Luxembourg and the United Kingdom provided indications of an average cost for the collection of VAT per customs declaration to be processed. Based on these indications, we conclude that the estimated cost for collecting VAT differs considerably between the abovementioned Member States, making it difficult to draw any reasonable conclusion. For an overview of the available cost structures related to the collection of VAT, we refer to Annex K

3.2.3 Cost structure for private operators for customs clearance procedures

Postal service providers and courier firms do not normally keep track and do not have information readily available regarding costs involved for customs clearance of the

[54] Small Technical Working Group (STEWOG) on Small Consignments, Report of the third meeting of the Group, Brussels, 2 October 2001

various type of low value consignments. It became clear that the identification of the costs involved for customs clearance of the various type of low value consignments varies widely between organizations as well as the relevant Member State.

Taking into account all parameters and the available information, at present it is not feasible to identify a general cost structure that would be applicable across operators (Postal services and courier firms) and across the various Member States.

The postal service providers and courier firms questioned by EY have outlined the average cost per consignment for processing an import of goods in certain Member States where they operate. This overview can be found in Annex L. Based on this information, we derived an approximated EU weighted cost average for processing imports of goods for these operators. To be noted that this is a subjective analysis given the source and completeness of the data. Moreover, this approximated weighted average cost it is not based on the standard cost model analysis.

Based on the approximated weighted EU average, it has however become apparent that the cost related to the clearance of goods with a value below the VAT threshold appears to be significantly lower (EUR 2.34) than the cost related to the clearance of goods with a value above the VAT threshold (EUR 8.96 per consignment with a value above the VAT threshold but below the customs duty threshold; EUR 9.21 per consignment with a value above the customs duty threshold).

This implies that there appears to be a direct correlation between the requirement to calculate and account for VAT and the increase in cost for courier firms as summarized in the table below.

Table 2: Correlation of customs clearance procedures and the cost related to the processing of an import, per consignment category

Value	Import duties	Courier firms customs declaration	Approximated average cost for processing an import (courier firms)
Below EUR 10-22	▪ No VAT ▪ No customs duties	Declaration by any other act, oral declaration, paper based or electronic manifest, simplified SAD	EUR 2.34
Above EUR 10-22, but below EUR 150	▪ VAT payable ▪ No customs duties	Simplified electronic declaration or SAD	EUR 8.96
Above 150 EUR	▪ VAT payable ▪ Customs duties payable	Full or simplified SAD	EUR 9.21

Source: Postal operators and courier firms contacted, EY calculation

3.2.4 Conclusions and estimation on total burden for business

It has been identified that there are considerable differences regarding the application by Member States mainly in what regards the VAT relief for consignments of negligible value, both in terms of the legislative treatment as well as the existing practical procedures used by competent authorities and business stakeholders in dealing with the importation of these types of consignments. This apparent difference in treatment leads to a significant variance in the costs involved for operators and business.

The analysis relating the legislative framework of the VAT relief highlighted differences in the treatment of small consignments between EU Member States, in particular the applicable thresholds, how such threshold values are calculated, and the exclusions from the relief (i.e. specific products, territories and mail order importations). In addition, a mismatch between the interpretation of the competent authorities and the practical application of the business stakeholders was identified with regard to the determination of the value threshold and mail order importations.

The analysis indicates that it is general practice and is commonly accepted in the majority of the EU Member States that for consignments with a value below the VAT threshold to use of simplified procedures for customs clearance. This includes verbal clearance, clearance by any other means or the use of the CN 22/23 forms under International Postal Agreements. In addition to these simplifications, there is no requirement to calculate and account for the import VAT involved.

The customs clearance and VAT requirements for import of consignments with a value above the VAT threshold but below the customs duty threshold are stricter. Generally, the relevant Authorities require a full customs declaration (i.e. the Single

Administrative Document) enabling them to calculate, account and assess the import VAT involved. All EU Member States except Portugal, however, allow national Postal Service Providers to customs clear this type of consignments with the CN 22/23 form. Simplifications are also available for the private operators.

All consignments having a value above the customs duty threshold must be declared to the Customs Administration of the respective EU country using a full or simplified customs declaration by means of the Single Administrative Document. Based on the import value declared in this SAD, the Customs Administration will be able to determine and collect all duties and VAT due.

From the input received from private operators, the cost for the declarant involved for import and customs clearance of goods with a value below the VAT threshold is significantly lower than the cost involved for the import and customs clearance of goods with a value above the VAT threshold. The differences in cost appears to directly correlate with a significant higher administrative burden resulting from the requirement to submit a more detailed customs declaration for consignments with a value above the VAT thresholds enabling the calculation and accounting of import VAT. This appears to be also true for public postal operators which in most cases will not charge a clearance fee if the consignments is below the VAT threshold, however they will charge a clearance fee for the consignments where VAT and/or customs duties are payable.

It should be noted however that this is true in the AS IS situation, with the way customs and VAT obligations are set for consignments of a value which is more than EUR 10-22. A separate study is expected to analysis the type of measures which could decrease burdens on declarants for those goods on which VAT is to be assessed.

PART II

Quantitative overview of the goods covered by the VAT exemption for small commercial consignments and qualitative assessment of the impact on the distortion of competition on the internal market

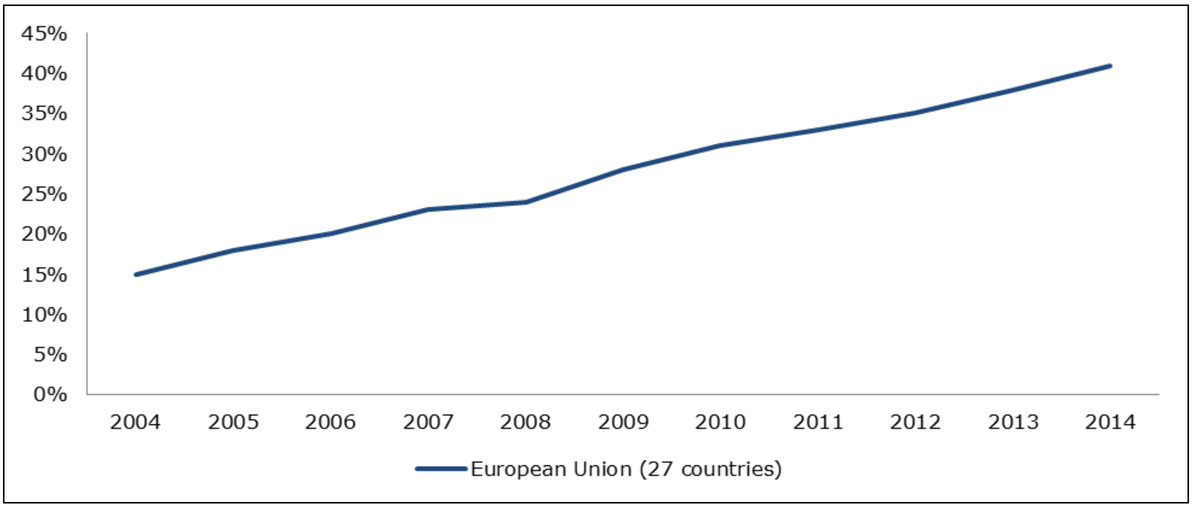
1. Introduction and Scope

Part I of this report outlined and compared the existing country specific provisions and operational procedures with regards to VAT reliefs covering commercial consignments below a certain value threshold (varying between EUR 10 to EUR 22 in EU Member States), and those of a non-commercial nature, which originate from countries outside the EU.

The European Commission has received various indications, including complaints from industry associations and tax authorities that the current provisions for the application of the VAT relief for imports of consignments with a low value allow for a potential distortion of competition.

These complaints should be seen in the context of the very rapid growth of the share of total retail sales accounted for by e-commerce in EU member states. For example, Figure 1 below shows the evolution of the percentage of individuals who have shopped online in the last three months (at the time of the survey), and it can be seen that this grew from 15% in 2004, to 41% in 2014. E-commerce sales in the EU reached EUR 317.9 billion in 2014, with the UK's consumers alone accounting for the largest proportion of these sales at EUR 107.1 billion[55].

Figure 1: Percentage of individuals who have shopped online in the last three months



Source: Eurostat, Information society

This has increased the potential opportunity for abuse of the small, private and commercial consignment's VAT exemption (referred to in this document as the low value consignment relief (LVCR)) as online retailers can locate their operations outside of the EU to service consumers in the EU and so benefit from the LVCR.

[55] *Ecommerce Europe, http://www.ecommerce-europe.eu/*

The objective of Part II of this report is therefore to provide a quantitative overview of the imports covered by the exemption, as well as a qualitative assessment of the impact on the distortion of competition.

The report includes the following main components:

- A quantitative assessment of the historic volume and growth of consignments that would have benefited from the LVCR (underlying data employed is discussed in Annex M) to understand the relative magnitude of any potential distortion;
- The corresponding calculation of the VAT foregone;
- Analysis of international trade flows for the relevant goods;
- The results of primary and secondary qualitative research on examples of distortions arising as a consequence of the LVCR; and
- Conclusions on the economic analysis including on the impact of the distortion of competition vis-à-vis EU businesses as a consequence of the LVCR.

When considering the impact of imports of small consignments, it has not been possible to distinguish between Small and Medium Enterprises (SMEs), and larger businesses when considering the impact of any distortions identified. Therefore, the report considers distortions in general rather than the specific impact on SMEs. Data limitations prevented a quantitative assessment of price elasticities and hence a literature review was conducted on the price elasticity of demand for goods that are likely to benefit from the LVCR. The results of this review are presented in Annex N.

2. Data and methodology

2.1 Introduction

This document sets out the detailed methodology that has been applied to estimate the volume of small consignments originating from outside the EU, and the resulting calculation of VAT foregone as a consequence of the LVCR.

2.2 Goods covered by LVCR

As a first step, we identified the relevant products likely to benefit from the LVCR and hence within the scope of the analysis. These were identified by EY's tax professionals based on the types of product categories that are likely to fall within the LVCR threshold across EU Member States, and were also confirmed as being relevant as part of the interview process with stakeholders. The table below shows the list of products determined as being within the scope of the study and their Combined Nomenclature ("CN") codes[56].

Table 1: LVCR relevant products by CN Code

Small consignment good	CN Code	Description of good
Cosmetics	3304	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or suntan preparations; manicure or pedicure preparations
Cut flowers	0603	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared
Video games	950410 85234959 85234059 85234945 85234045	Video games for use with a television receiver
Health supplements	2936	Pro-vitamins and vitamins, natural or reproduced by synthesis (including natural concentrates), derivatives thereof used primarily as vitamins, and intermixtures of the foregoing, whether or not in any solvent
PC consumables (printer cartridges)	3215	Printing ink, writing or drawing ink and other inks, whether or not concentrated or solid

[56] *CN codes refer to Combined Nomenclature classification system used when goods are declared to customs in the Community.*

Small consignment good	CN Code	Description of good
Stationery	9608, 9609, 4817	Ballpoint pens; felt-tipped and other porous-tipped pens and markers; fountain pens, stylograph pens and other pens; duplicating stylos; propelling or sliding pencils; pen-holders, pencil-holders and similar-holders; parts (including caps and clips) of the foregoing articles, other than those of heading 9609; Pencils (other than pencils of heading 9608), crayons, pencil leads, pastels, drawing charcoals, writing or drawing chalks and tailors' chalks; envelopes, letter cards, plain postcards and correspondence cards, of paper or paperboard; boxes, pouches, wallets and writing compendiums, of paper or paperboard, containing an assortment of paper stationery
Greeting Cards	4909	Printed or illustrated postcards, printed cards bearing personal greetings, messages or announcements, whether or not illustrated, with or without envelopes or trimmings
Clothing	61, 62	Articles of apparel and clothing accessories, knitted or crocheted
Toys	9503	Tricycles, scooters, pedal cars and similar wheeled toys, dolls' carriages, dolls, other toys, reduced size ("scale") models and similar recreational models, working or not, puzzles of all kinds
Sports Accessories	9506	Articles and equipment for general physical exercise, gymnastics, athletics, other sports (including table tennis) or outdoor games, swimming pools and paddling pools
Toiletries	3307	Pre-shave, shaving or aftershave preparations, personal deodorants, bath preparations, depilatories and other perfumery, cosmetic or toilet preparations, not elsewhere specified or included; prepared room deodorisers, whether or not perfumed or having disinfectant properties
CDs/ DVDs	8523, 8524	Discs, tapes, solid-state non-volatile storage devices, 'smart cards' and other media for the recording of sound or of other phenomena, whether or not recorded, including matrices and masters for the production of discs
Books	4901, 4903	Printed books, brochures, leaflets and similar printed matter, whether or not in single sheets; Children's picture, drawing and colouring books
Magazines	4902	Newspapers, journals and periodicals, whether or not illustrated or containing advertising material

Source: EY analysis

2.3 Data limitations

Providing a quantitative assessment of the goods covered by the LVCR requires the identification and collection of data on the volumes of small consignments imported into EU Member States from outside the EU.

Publicly available sources on imports for such products were explored; these include Eurostat and EU Member States' national statistics offices. The data that was available from Eurostat covered only imports recorded at the point of entry in a Member State. After discussion with Eurostat (see Annex M for details), it was confirmed that the vast majority of these imports consisted of bulk shipments between businesses (i.e. B2B transactions), subject to VAT, and therefore outside the scope of the present study. Eurostat stated that it was not possible to identify and isolate small consignments below the value of EUR 22[57] (i.e. the value threshold of goods that benefit from the LVCR) from the Eurostat datasets. This is because EC regulations do not compel Member States to collect data on imports and exports based on any particular threshold. In fact, Article 3[58] of the Commission Regulations states that only imports or exports exceeding EUR 1 000 in value shall be collected for the purpose of production of external trade statistics. However, the application of this threshold by Member States is optional.

Excerpts from Article 3:

1. *The statistical threshold referred to in Article 12 of the Basic Regulation shall be fixed, for each type of goods, so that imports or exports exceeding EUR 1 000 in value or 1 000 kg in net mass shall be collected for the production of external trade statistics.*

2. *Application by the Member States of the threshold referred to in paragraph 1 shall remain optional*

Even though most Member States, with a few exceptions[59], collect data on goods below the value of EUR 1 000, this data is aggregated for reporting purposes. Therefore, it is not possible to identify goods that have a value below the LVCR threshold. This makes import data unsuitable to use for the purposes of estimating volume of LVCR consignments.

The applied assumption is that, due to their nature and value, imports of small consignments are likely to be fulfilled via public and private postal operators. It was confirmed via correspondence with Eurostat (see Annex M), that the statistics collated by Eurostat would not contain data on goods imported or exported by national postal operators for commercial purposes where the aggregate value was up to EUR 1 000. Given their negligible value, well below the statistical threshold, such consignments would not be counted within official import statistics.

Therefore, while the Eurostat data is useful when analysing importation behaviours and historic trends, it was not considered an appropriate basis for estimating the volume of small consignments that benefit from the LVCR.

The Universal Postal Union (UPU) collates information on the volumes of international postal mail receipts for EU Member States. However, this dataset does not record the country of origin nor the value of the mail item received. The UPU was directly consulted as to whether additional data was available; they responded that they could not provide any further information.

[57] *In the majority of Member States the LVCR threshold is EUR 22 except Bulgaria, Croatia, Cyprus, Denmark, Hungary, Lithuania, Romania, Sweden and the United Kingdom. (More details in Annex B).*
[58] *Commission Regulation (EC) No 1917/2000*
[59] *Bulgaria, Italy, Germany, France, Austria, United Kingdom have statistical thresholds of reporting goods on Extrastat above the LVCR threshold and so do not collect any information on imports of goods below the LVCR threshold.*

Private and designated[60] postal operators and national postal regulators were also contacted to enquire as to whether they had relevant data on the volumes and value of international postal mail receipts from outside the EU. The majority of the responses received confirmed that such information was not recorded at the level of detail required, although some limited additional information was received from a few respondents.

In summary, whilst there is evidence that the LVCR is applied in various product categories, in practice there appears to be no comprehensive public and readily available sources of information on the volumes, source and value of international mail receipts of small consignments.

As a consequence, to estimate the size and development of the LVCR market, a number of assumptions and proxies have to be adopted. The approach adopted is set out in the following sections. It should be noted that this is the first attempt to estimate data on importation of small consignments for all EU member states in a consistent manner.

2.4 Data sources

2.4.1 Universal Postal Services Union

The UPU collects data on the number of items and volume of post sent/received by each designated postal operator[61]. The data is further split by domestic and international dispatches and receipts. However, a split by country of destination/origin is not available and, therefore, it is not possible to distinguish between mail from/to EU and non-EU countries. The international receipt/dispatch data is divided into the following categories (this list is not exhaustive)[62]:

A) Letter-post (up to 2kg, newspapers and periodicals are included in this category):
   i. Number of Letter-post items
   ii. Number of registered items
   iii. Number of insured letters

B) Parcels
   i. Number of ordinary parcels (data available for the entire analysed period (1999-2013))
   ii. Number of insured parcels (data available for the entire analysed period (1999-2013))
   iii. Number of express items (data available from 2005 onwards, only in certain Member States)

C) Other categories

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[60] A designated postal operator is the national postal operator for a particular country and would have, for example, universal postal obligations.
[61] It does not collect data from private postal operators on volumes of mail.
[62] http://www.upu.int/uploads/tx_sbdownloader/descriptionPostalStatisticsTechnicalNotesEn.pdf

i. Number of ordinary money orders

ii. Number of hybrid mail items – mail initially consisting of an e-mail message sent by the customer to the Post, which then prints it, dispatches it and delivers it in physical form

iii. Total number of advertising items

The UPU does not provide any additional information regarding the nature of the post items or their value. Therefore, while this data acts as a useful starting point, an assessment of the volume of small consignments as well as of the calculation of VAT foregone requires a number of assumptions and calculations.

The relevant categories, for the analysis (given the UPU descriptions) are "Parcels" and "Letter-post"[63]. For Parcels, data exists for the period 1999-2013 and would definitely cover the importation of small consignments. However, the UPU data on Letter-post does not distinguish between actual letters, which will represent the vast majority of Letter-post volumes, and small consignments sent via the Letter-post stream. There is a risk that the historic decline of letter volumes, which has been significant due to development of internet and mobile communication technology, would skew the final results if included in some form (for example, if it is assumed that imports of small consignments represent a fixed proportion of total Letter-post over the period). As a consequence, an alternative to the UPU Letter-post dataset has been used to derive volume estimates for imports of small consignments categorised as Letter-post, which is detailed in Annex O. This would complement the UPU figures on Parcels.

2.4.2 EY data collection from public and private postal operators

All postal operators and postal regulators across the EU (except Croatia) as well as the major private postal operators were contacted to discuss the extent to which they could provide us with additional data on the volume of small consignments. Specifically, the data requested were as follows:

1. Volumes (in absolute terms) of international mail received between 1999 and 2012 by Member State and the percentage split between mail received from other EU Member States and from countries outside the EU (the split of volumes to be completed in line with the UPU classifications).
2. The breakdown of international mail receipts into low, medium and high value, to assist in the determination of the size of the market for small consignments below EUR 22.

Some additional data was received from ten designated EU postal operators: Austria, Poland, France, Malta, Cyprus, Romania, Slovenia, Estonia, Czech Republic and Hungary. Two private postal operators also provided data for this study on low value parcels receipts per Member State coming from outside the EU in 2013, as well as certain data on market shares[64] for 2011.

[63] Mail recorded under "Other categories" has been excluded, as it has been assumed that this would not include any small consignments that would benefit from LVCR.
[64] Volume market share of outbound intercontinental mail (i.e. to Asia and Americas).

This additional information has been used, alongside the UPU dataset, to derive a set of estimates by Member State for the volume of small consignments originating from outside the EU. As previously stated, this is the first time such estimates are produced for EU-28.

2.5 The volume of international parcel receipts

Table 2 shows the volume of international parcels delivered to each Member State for the period 1999 - 2013. The data is sourced from the UPU with the exception of data for those Member States (Slovenia, Romania and Czech Republic) where data was received directly from the designated postal operator for the period 1999 - 2012.

Table 2: International parcel receipts in millions (items) [65]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	-	1.20	0.93	0.91	1.31	1.68	-	-	-	-	-	-	-	-	-
Belgium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bulgaria	0.14	0.15	0.14	0.15	0.15	0.16	0.21	0.11	0.20	0.22	0.22	0.19	0.18	0.13	0.15
Croatia	0.05	0.07	0.06	0.06	0.07	0.06	0.13	0.09	0.10	0.12	0.11	0.11	0.12	0.11	0.19
Cyprus	0.05	0.05	0.05	0.05	0.05	0.06	0.11	0.12	0.14	0.18	0.19	0.18	0.18	0.16	0.15
Czech Rep.	0.24	0.26	0.25	0.25	0.27	0.25	0.29	0.31	0.36	0.48	0.45	0.48	0.34	0.27	0.23
Denmark	-	-	-	-	-	-	-	-	-	-	3.68	4.18	-	-	-
Estonia	0.04	0.05	0.04	0.04	0.04	0.04	0.07	0.04	0.04	0.82	0.07	0.07	0.07	0.12	0.14
Finland	0.48	-	-	0.30	0.40	0.30	0.40	0.40	0.46	0.53	-	-	-	-	-
France	0.87	0.85	0.88	-	-	-	-	-	-	-	-	-	-	-	-
Germany	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United Kingdom	6.57	3.83	-	-	-	6.31	6.70	2.07	2.40	-	1.94	1.77	1.75	1.49	1.36
Greece	0.26	0.24	0.25	0.22	0.20	0.21	0.27	0.27	0.29	0.31	0.31	-	-	-	-
Hungary	0.15	0.15	0.15	0.16	0.16	0.16	0.23	0.23	0.25	0.30	0.26	0.29	0.32	0.29	-
Ireland	0.52	0.61	0.72	0.33	0.45	0.50	-	0.40	-	-	-	-	-	-	-
Italy	0.54	0.45	0.42	0.40	0.37	0.34	2.25	2.02	1.91	2.12	2.02	1.97	1.46	1.25	1.38
Latvia	0.05	0.06	0.06	0.91	1.06	0.90	0.09	0.09	0.10	0.10	-	-	0.10	0.08	0.09
Lithuania	0.05	0.05	0.05	0.05	0.06	0.06	0.09	0.09	0.11	0.11	0.10	0.12	0.13	0.14	0.14
Luxembourg	0.17	0.20	0.25	0.28	0.31	0.31	0.35	0.38	0.41	0.40	0.29	0.30	0.33	0.34	-
Malta	0.04	0.04	0.03	0.02	0.02	0.02	0.05	0.03	-	0.08	0.10	0.08	0.06	0.06	0.05
Netherlands	-	-	0.53	0.53	0.53	0.52	0.42	0.28	0.20	-	230.63	-	-	-	-
Poland	0.68	0.74	0.77	0.27	0.32	0.31	0.50	0.52	0.55	0.74	0.70	0.64	0.46	-	0.76
Portugal	0.23	0.20	0.20	0.16	0.15	0.12	0.11	0.10	0.09	0.11	0.11	0.11	0.10	0.10	-
Romania	0.18	0.17	0.17	0.17	0.17	0.16	0.26	0.26	0.30	0.23	0.20	0.28	0.22	0.24	0.25
Slovakia	0.08	0.10	0.12	0.20	0.45	0.63	0.14	0.13	0.25	0.23	0.37	0.37	0.39	0.38	0.40
Slovenia	0.06	0.05	0.05	0.06	0.06	0.06	0.04	0.07	0.09	0.10	-	0.12	0.20	0.32	0.38
Spain	0.62	0.62	0.55	0.49	0.56	0.70	1.33	1.46	-	-	-	-	-	-	-
Sweden	-	-	-	-	-	-	-	-	-	-	0.30	-	-	-	-

Source: UPU data for 25 EU Member States; designated postal operators (Romania, Slovenia and Czech Republic)

The dataset is incomplete[66]; for example the dataset does not contain any information on incoming international parcel receipts for Germany and Belgium, and for other

[65] *The table shows consolidated volumes for the UPU categorisations "ordinary parcels receipts", "insured parcels receipts", and "express items receipts" from designated postal operators only, it does not record parcels handled by private postal operators.*

countries, data is available only for a few years (e.g. Denmark, France, Sweden, etc.). Furthermore, in some cases the data appears erroneous, for example the data point for the Netherlands in 2009 appears inconsistent with the trend of the dataset. However, despite these issues, the UPU dataset remains the most robust and comprehensive available for further analysis. Therefore, a number of assumptions were made to derive estimates for the total volume of small consignments originating from outside the EU. The specific steps undertaken are as follows:

- Step 1 – estimation of a complete set of international parcel mail receipts;
- Step 2 – estimation of total international parcel mail receipts originating from outside the EU;
- Step 3 – estimation of the proportion of small consignments within total international parcel receipts from outside the EU;
- Step 4 – estimation of the volume of small consignments categorised as Letter-post; and
- Step 5 – estimation of the volume of small consignments handled by private postal operators.

These steps are discussed in more detail in Annex O.

[66] *The UPU were contacted regarding this, and they confirmed that they could not provide any further information.*

3. Economic analysis of the development of the LVCR market and its consequences

3.1 Presentation of statistics on importation of small consignments

The final base case estimates of the volumes of international small consignment receipts originating from outside the EU are shown in Table 3 below. Between the period 1999 and 2013 total annual volumes are estimated to have grown from 29.78 million to 114.85 million, a percentage increase of 286% for the entire period. The growth has coincided with, and is therefore most likely explained by the emergence and growing importance of e-commerce trade[67].

Table 3: Total volumes of international small consignment receipts originating from outside the EU millions (items), base case

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	1.84	1.86	1.45	1.52	2.22	2.88	4.40	4.27	4.70	5.30	5.26	5.38	4.89	4.96	5.51
Belgium	0.46	0.46	0.45	0.61	0.90	1.16	1.64	1.83	2.12	2.44	2.65	2.91	3.04	3.26	3.58
Bulgaria	0.22	0.24	0.21	0.25	0.27	0.30	0.41	0.29	0.43	0.48	0.51	0.48	0.49	0.44	0.49
Croatia	0.08	0.11	0.10	0.11	0.16	0.18	0.31	0.27	0.31	0.36	0.38	0.41	0.45	0.46	0.61
Cyprus	0.14	0.13	0.12	0.14	0.15	0.19	0.33	0.37	0.43	0.55	0.58	0.56	0.58	0.54	0.52
Czech Rep.	0.57	0.61	0.59	0.66	0.77	0.77	0.93	1.03	1.21	1.54	1.54	1.66	1.42	1.30	1.28
Denmark	3.41	3.44	3.52	2.91	3.45	3.60	5.48	5.27	5.78	6.50	6.42	7.27	6.51	6.55	7.28
Estonia	0.10	0.10	0.08	0.11	0.12	0.13	0.20	0.14	0.17	0.21	0.25	0.27	0.29	0.36	0.45
Finland	0.75	0.65	0.56	0.54	0.76	0.68	0.90	0.97	1.13	1.30	1.34	1.41	1.38	1.44	1.59
France	1.35	1.32	1.37	2.01	3.10	4.05	5.66	6.46	7.54	8.70	9.55	10.47	11.10	12.00	13.13
Germany	3.66	3.68	3.61	4.02	5.54	6.77	9.72	10.39	11.79	13.45	14.22	15.39	15.53	16.48	18.12
United Kingdom	10.17	5.92	6.88	9.50	12.12	14.74	17.02	11.92	14.10	15.48	16.85	18.30	19.97	21.31	22.81
Greece	0.40	0.37	0.39	0.49	0.60	0.76	0.99	1.13	1.31	1.49	1.62	1.76	1.84	1.98	2.17
Hungary	0.29	0.31	0.24	0.16	0.18	0.31	0.46	0.51	0.62	0.65	0.74	0.71	0.86	0.78	0.87
Ireland	0.80	0.95	1.11	0.77	1.17	1.47	1.62	1.77	2.04	2.35	2.55	2.78	2.91	3.12	3.42
Italy	0.84	0.70	0.66	1.10	1.51	1.95	5.23	5.36	5.68	6.46	6.78	7.19	6.90	7.07	7.74
Latvia	0.08	0.09	0.09	0.11	0.13	0.16	0.18	0.18	0.22	0.23	0.23	0.24	0.25	0.23	0.26
Lithuania	0.08	0.08	0.08	0.13	0.17	0.22	0.31	0.35	0.42	0.47	0.49	0.56	0.62	0.67	0.72
Luxembourg	0.26	0.31	0.38	0.51	0.63	0.71	0.84	0.96	1.08	1.13	1.05	1.15	1.26	1.36	1.50
Malta	0.06	0.06	0.05	0.04	0.05	0.05	0.09	0.08	0.12	0.16	0.19	0.17	0.15	0.14	0.15
Netherlands	0.79	0.80	0.82	1.18	1.54	1.89	2.10	2.25	2.49	2.89	3.24	3.59	3.91	4.26	4.65
Poland	1.06	1.14	1.19	0.59	0.80	0.91	1.33	1.50	1.68	2.09	2.16	2.20	2.07	2.43	2.79
Portugal	0.35	0.31	0.31	0.31	0.36	0.38	0.42	0.48	0.52	0.61	0.67	0.73	0.78	0.84	0.89
Romania	0.55	0.49	0.49	0.62	0.68	0.69	1.03	0.75	0.83	0.78	1.07	1.28	1.39	1.31	1.28
Slovakia	0.12	0.15	0.18	0.35	0.77	1.08	0.40	0.44	0.66	0.69	0.93	0.99	1.06	1.10	1.17
Slovenia	0.01	0.07	0.06	0.11	0.16	0.20	0.21	0.29	0.28	0.33	0.43	0.49	0.62	0.91	1.05
Spain	0.96	0.97	0.86	1.16	1.65	2.26	3.58	4.16	4.74	5.43	5.73	6.13	6.17	6.54	7.19
Sweden	0.40	0.40	0.39	0.57	0.87	1.14	1.60	1.81	2.10	2.43	2.42	2.92	3.07	3.31	3.64
Total	**29.78**	**25.70**	**26.24**	**30.57**	**40.83**	**49.62**	**67.39**	**65.20**	**74.47**	**84.48**	**89.84**	**97.39**	**99.47**	**105.15**	**114.85**

Source: UPU, private and designated postal operators' data and EY analysis

[67] The proportion of individuals shopping only (in the last 3 months) in the EU increased from 15% in 2004 to 38% in 2013 Source: Eurostat, Information society.

It should be noted that these volumes exclude any small consignments that circumvent official channels and the small consignments sent from third territories (e.g. Channel Islands) to EU Member States (which are captured to a certain extent in the analysis of VAT foregone in Sections 3.3.2 and 3.3.4), and hence there is a high chance that they represent an under-estimate of the total market.

3.2 Sensitivity analysis – volumes

The estimation of the volume of international receipts of small consignments originating from outside the EU was based on a 5-step approach as described in Section 2.5, and employs a number of assumptions from a variety of sources. In order to analyse how sensitive the results are, a number of different assumptions have been tested in each step of the methodology. There are therefore multiple possible combinations of assumptions that could be analysed. The selected approach in this section has been to identify the minimum and maximum from the possible combinations, with the aim of providing a range around the base case estimate of volumes and then, subsequently, the VAT foregone calculation.

The 3 scenarios that are shown are defined as follows:

a. Minimum case

- Fixed trend of the proportion of small consignments originating from outside the EU (18.5%);
- Share of low value consignments - private postal operator's estimate;
- 1:5 ratios of small parcels passing through the letter stream; and
- Progressive increase of parcel volumes handled by the private postal operators.

b. Base case

- Fixed trend of the proportion of small consignments originating from outside the EU (26%);
- Share of low value consignments - average of private operators' weighted average, 75% and 80% (71%);
- 1:8 ratios of small parcels passing through the letter stream; and
- Progressive increase of parcel volumes handled by the private postal operators.

c. Maximum case

- Fixed trend of the proportion of small consignments originating from outside the EU (33.5%);
- Share of low value consignments - European Commission study on low value proportions of parcels (i.e. 80%);
- 1:10 ratios of small parcels passing through the letter stream; and
- Progressive increase of parcel volumes handled by the private postal operators.

Table 4 shows the range of results derived for the total international receipts of small consignments from the various scenarios calculated.

Table 4: Public and Private Operators: Total international receipts of small consignments originating from outside the EU in millions (items)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	1999-2013 growth
Min	10.48	9.07	9.26	15.19	23.12	30.58	41.27	44.88	52.53	60.42	66.77	73.79	78.98	85.35	93.14	**789%**
Base	29.78	25.70	26.24	30.57	40.83	49.62	67.39	65.20	74.47	84.48	89.84	97.39	99.47	105.15	114.85	**286%**
Max	53.61	46.16	47.19	49.52	62.66	73.14	99.70	90.28	101.52	114.09	118.19	126.32	124.58	129.44	141.56	**164%**

Source: UPU, private and designated postal operators' data and EY analysis

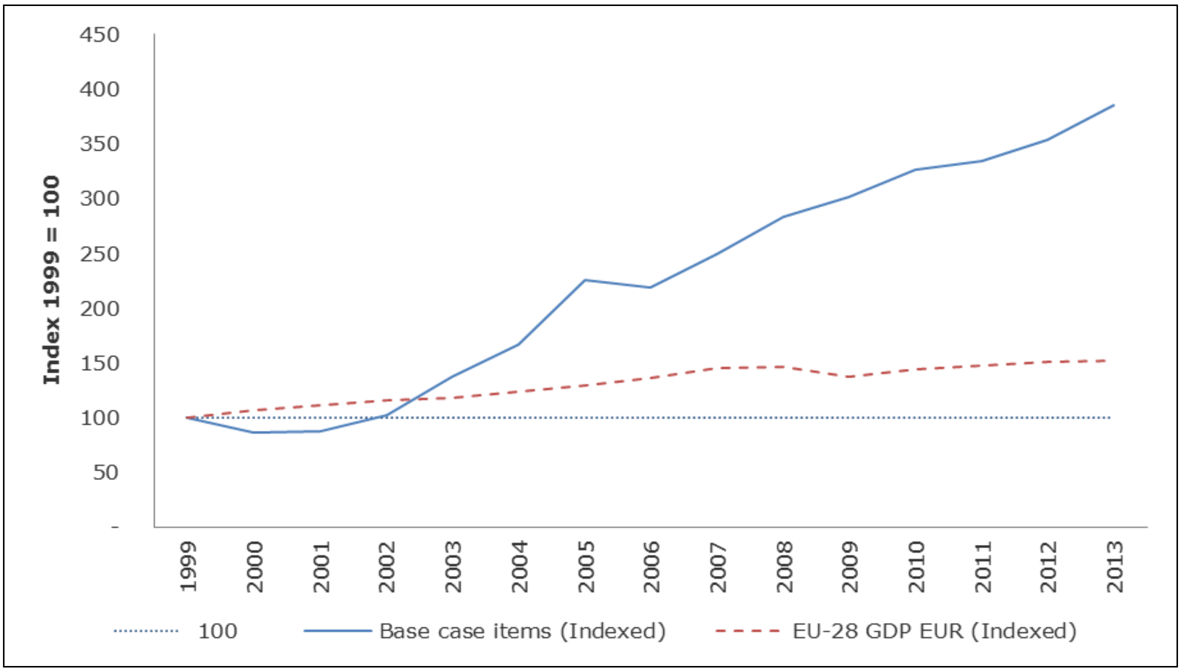
All three scenarios presented in Table 4 and all scenarios shown in Figure 2 indicate a significant increase in the demand for small consignments originating from outside the EU. The growth trend from 1999 to 2013 in the base case is 286%.

Figure 2: International receipts of small consignments from outside the EU in million (items)

Source: EY analysis

Figure 3 shows the growth in the base case postal market volumes compared to the GDP growth in the EU. It is worth noting that the postal market volumes have significantly outpaced the GDP growth across the EU in the period 1999 to 2013.

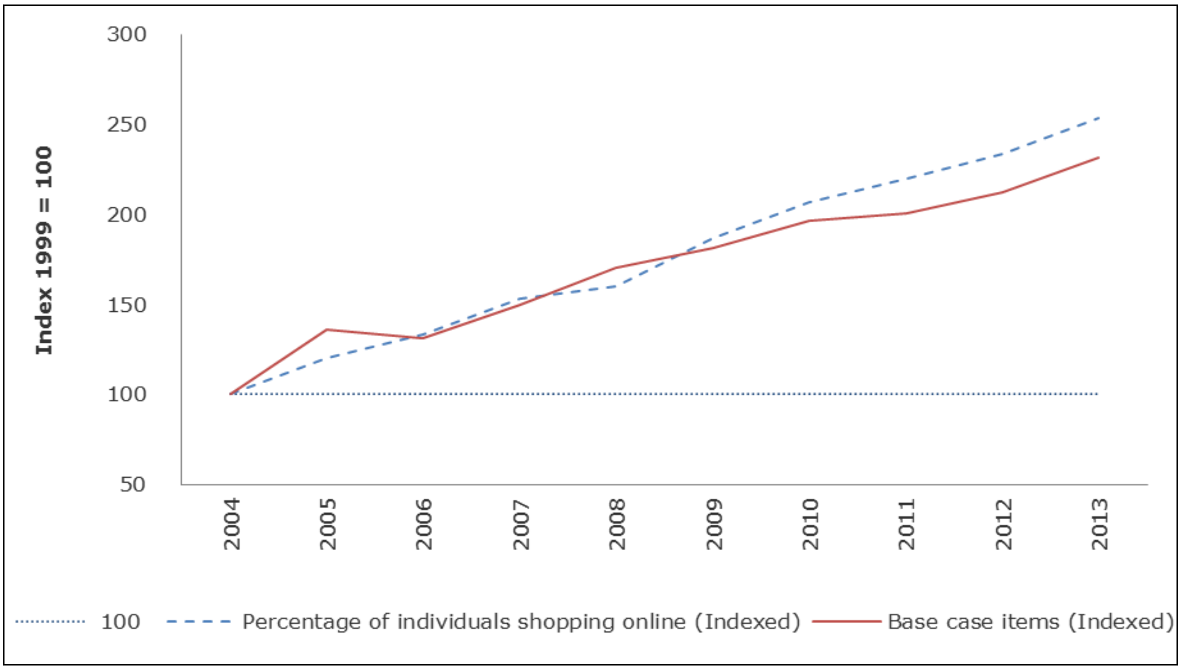
Figure 3: Growth in international receipts of small consignments from outside the EU vs GDP growth from 1999 to 2013



Source: EY analysis

Figure 4 shows the growth in the base case postal market volumes compared to the trend of individuals shopping online. It appears that the postal market volumes have increased in line with growth of e-commerce in the EU in the period 2004 to 2013.

Figure 4: Growth in international receipts of small consignments from outside the EU growth vs percentage of individuals shopping online growth from 2004 to 2013



Source: EY analysis

3.3 Estimating the VAT foregone as a consequence of the LVCR

The purpose of calculating the VAT foregone as a consequence of the LVCR is to assist in understanding the magnitude of the issue from a policy makers' perspective, in particular how the magnitude can evolve if no measures are taken to correct the situation.

The VAT foregone for each Member State is calculated by multiplying the total volume of international receipts of small consignments originating from outside the EU by the value of the small consignment (including transport cost), and then applying the applicable VAT rate per Member State.

The VAT foregone calculation needs to be adjusted to take into account fraud and mis-declarations[68] (see Section 3.3.2), as well as parcels for which VAT would be deductible (see Section 3.3.3). In addition, the VAT foregone arising as a consequence of known competitive distortions in the United Kingdom (Channel Islands) and Denmark (Åland Islands) should also be included within the calculation (see Section 3.3.4).

3.3.1 Average value of the consignment for the VAT foregone calculation

A key assumption in the VAT foregone calculation is the average value of the consignment. The actual level at which the relief applies is EUR 22 in the majority of EU Member States, however, there are some differences by Member State, which are captured in Annex B.

Part I, Section 2.2 from the main report shows that the actual implementation of the relief varies by country. Based on feedback from the EY network with regard to the practical application, the method for determining the value for the application of the exemption in Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Germany, Italy, Lithuania, Luxemburg, and the Netherlands is done on the basis of the intrinsic value of the good being purchased, and does not take into account any additional handling and transport costs, which would also be exempt from VAT.

In contrast, practice in Austria, Croatia, Cyprus, Finland, France, Greece, Hungary, Ireland, Latvia, Malta, Poland, Portugal, Romania, Spain, Slovakia, Slovenia, Sweden and the United Kingdom indicate that the relief threshold applies to the total value of the purchase (i.e. intrinsic value of the good plus any handling or transport costs).

Therefore, to account for the average value of the small consignment to be employed in our VAT foregone calculation, these scenarios are adopted:

- Minimum case (Scenario 1): average parcel value is set to EUR 10 plus transport costs for all Member States;
- Base case (Scenario 2): average parcel value is set to approximately EUR 20 plus 30% transport costs for all Member States; and

[68] Mis-declaration could arise from undervaluation, wrong declaration of goods as gifts or as goods that can benefit of the LVCR.

- Maximum case (Scenario 3): average parcel value is set to the upper limit of the LVCR exemption per Member State plus transport costs.

In the maximum case, for those Member States where a total value approach is taken, transportation costs have not been taken into account, while for Member States where an intrinsic value is taken we assume an average parcel value per consignment plus an additional 30% to account for handling and transport costs, where it is understood that these would also be excluded from the application of VAT. The assumptions applied by country for the maximum value are shown in Table 5.

Table 5: Assumed maximum value per small consignment

	Value (EUR)
Austria	28.60
Belgium	28.60
Bulgaria (Rep.)	19.94
Croatia	27.29
Cyprus	22.10
Czech Rep.	28.60
Denmark	13.91
Estonia	28.60
Finland	28.60
France	28.60
Germany	28.60
Greece	28.60
Hungary	26.25
Ireland	28.60
Italy	28.60
Latvia	28.60
Lithuania	28.22
Luxembourg	28.60
Malta	28.60
Netherlands	28.60
Poland	28.60
Portugal	28.60
Romania	13.00
Spain	28.60
Slovakia	28.60
Slovenia	28.60
Sweden	28.60
United Kingdom	23.49

*Please refer to Annex B for currency exchange rate information

Source: EY analysis

The results of the VAT foregone calculation for the period 1999 – 2013 are shown in Table 6 for the base case. The total VAT foregone is estimated to have grown from EUR 126.03 million in 1999 to EUR 568.66 million in 2013, an increase of 351%.

Table 6: Estimate of VAT foregone as a consequence of the small consignment exemption in millions (EUR), base case

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	9.58	9.68	7.52	7.91	11.53	14.98	22.89	22.19	24.42	27.57	27.36	27.97	25.42	25.78	28.64
Belgium	2.49	2.51	2.46	3.31	4.93	6.35	8.96	10.01	11.57	13.34	14.47	15.89	16.58	17.82	19.56
Bulgaria	0.81	0.85	0.77	0.89	0.97	1.09	1.47	1.03	1.54	1.72	1.82	1.72	1.76	1.57	1.77
Croatia	0.46	0.61	0.56	0.65	0.92	1.00	1.75	1.52	1.76	2.06	2.19	2.46	2.69	2.96	3.95
Cyprus	0.24	0.24	0.26	0.34	0.46	0.59	1.05	1.16	1.36	1.72	1.81	1.77	1.82	1.92	1.98
Czech Rep.	3.28	3.48	3.40	3.76	3.81	3.80	4.58	5.09	5.97	7.63	7.61	8.61	7.37	6.76	6.98
Denmark	10.23	10.33	10.55	8.72	10.34	10.81	16.44	15.82	17.34	19.51	19.25	21.80	19.52	19.64	21.84
Estonia	0.46	0.48	0.38	0.52	0.56	0.61	0.92	0.67	0.78	0.98	1.24	1.41	1.48	1.90	2.33
Finland	4.28	3.74	3.20	3.08	4.33	3.89	5.13	5.54	6.44	7.43	7.68	8.27	8.25	8.62	9.91
France	7.22	6.87	6.96	10.25	15.81	20.62	28.83	32.91	38.40	44.33	48.65	53.36	56.55	61.14	66.93
Germany	15.23	15.33	15.03	16.71	23.05	28.17	40.43	43.22	58.22	66.47	70.24	76.02	76.72	81.40	89.50
United Kingdom	37.36	21.75	25.29	34.91	44.54	54.16	62.54	43.80	51.82	56.88	53.08	67.26	83.89	89.48	95.81
Greece	1.87	1.73	1.83	2.27	2.82	3.54	4.87	5.57	6.48	7.35	7.99	10.07	11.01	11.84	12.97
Hungary	1.85	2.00	1.54	1.07	1.16	2.01	3.02	2.66	3.20	3.36	4.31	4.62	5.59	5.49	6.11
Ireland	4.39	5.18	5.79	4.18	6.37	8.01	8.84	9.67	11.16	12.83	14.26	15.17	15.87	18.68	20.45
Italy	4.37	3.63	3.41	5.70	7.88	10.16	27.21	27.87	29.53	33.62	35.24	37.37	37.69	38.59	42.25
Latvia	0.35	0.41	0.40	0.51	0.63	0.75	0.86	0.86	1.02	1.06	1.27	1.31	1.35	1.26	1.42
Lithuania	0.36	0.38	0.38	0.59	0.79	1.03	1.43	1.64	1.95	2.18	2.56	3.05	3.37	3.65	3.92
Luxembourg	1.00	1.20	1.50	1.98	2.46	2.76	3.28	3.73	4.20	4.42	4.09	4.47	4.92	5.30	5.87
Malta	0.23	0.22	0.19	0.17	0.18	0.25	0.42	0.36	0.54	0.73	0.91	0.79	0.68	0.68	0.68
Netherlands	3.61	3.64	4.04	5.81	7.59	9.31	10.37	11.09	12.31	14.27	15.98	17.76	19.30	21.43	25.41
Poland	6.05	6.54	6.82	3.40	4.55	5.22	7.58	8.57	9.59	11.96	12.37	12.58	12.37	14.51	16.66
Portugal	1.57	1.39	1.46	1.53	1.80	1.88	2.20	2.60	2.85	3.23	3.48	3.88	4.65	5.05	5.33
Romania	1.44	1.12	1.12	1.42	1.56	1.57	2.36	1.70	1.89	1.79	2.43	3.29	3.99	3.76	3.68
Slovakia	0.70	0.89	1.09	2.09	4.00	5.33	1.98	2.15	3.25	3.39	4.61	4.89	5.51	5.70	6.07
Slovenia	0.07	0.34	0.29	0.58	0.82	1.03	1.12	1.51	1.43	1.70	2.25	2.54	3.20	4.74	5.73
Spain	3.97	4.02	3.56	4.81	6.87	9.42	14.91	17.31	19.73	22.58	23.85	27.10	28.88	33.16	39.27
Sweden	2.57	2.58	2.54	3.70	5.66	7.42	10.40	11.77	13.67	15.77	15.76	18.99	19.98	21.54	23.63
Total	**126.03**	**111.13**	**112.32**	**130.90**	**176.40**	**215.76**	**295.85**	**292.03**	**342.45**	**389.85**	**406.78**	**454.42**	**480.40**	**514.37**	**568.66**

Source: EY analysis

Sensitivity analysis was conducted to reflect the fact that, in practice not all small consignments that would have benefitted from the LVCR would have a value of EUR 20. The results of this analysis are presented in Table 7.

Table 7: Estimate of VAT foregone as a consequence of the small consignment exemption in millions (EUR)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EUR 10	73.51	64.10	65.20	74.92	99.72	120.83	165.22	160.36	187.52	212.93	221.17	248.36	262.55	280.12	309.13
EUR 20	126.03	111.13	112.32	130.90	176.40	215.76	295.85	292.03	342.45	389.85	406.78	454.42	480.40	514.37	568.66
Max	139.71	123.02	124.45	144.99	195.27	238.69	327.11	322.57	378.20	430.52	448.94	501.69	530.32	567.80	627.66

Source: EY analysis

This analysis shows a range for VAT foregone in 2013 of between EUR 309.13 million and EUR 627.66 million under the minimum and maximum scenarios respectively. The calculation of VAT foregone on the basis of an assumed average value of the parcel of EUR 10 is likely to understate the true average parcel values. A calculation approach closer to the maximum value is likely to more representative of the true underlying average, and gives a more appropriate indication as to the potential scale of any distortion arising as a consequence of the LVCR.

3.3.2 Adjusting VAT foregone for non-compliance and mis-declarations

The results of the VAT foregone shown in Table 7 do not take into account any VAT foregone as a consequence of non-compliance and/or mis-declaration at Customs. These should be included within the calculation to provide a complete view of the extent of VAT foregone.

A survey conducted by the European Commission in 2001[69], indicated that VAT foregone as a result of fraud and mis-declaration could be as high as 25% of the total VAT foregone. The results after applying this adjustment (an effective increase of 33%), are shown in Table 8. This shows that VAT foregone is estimated to have increased from EUR 168.04 million in 1999 to EUR 758.22 million in 2013.

Table 8: Estimate of VAT foregone as a consequence of the small consignment exemption in millions (EUR) including fraud and mis-declaration, base case

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
VAT foregone	126.03	111.13	112.32	130.90	176.40	215.76	295.85	292.03	342.45	389.85	406.78	454.42	480.40	514.37	568.66
Fraud and mis-declaration VAT foregone	42.01	37.04	37.44	43.63	58.80	71.92	98.62	97.34	114.15	129.95	135.59	151.47	160.13	171.46	189.55
Total	**168.04**	**148.18**	**149.76**	**174.54**	**235.19**	**287.68**	**394.47**	**389.37**	**456.60**	**519.81**	**542.37**	**605.90**	**640.53**	**685.83**	**758.22**

Source: EY analysis

3.3.3 Calculating the share of estimated actual VAT foregone

The calculations above include the total volume of international parcel receipts of small consignments originating from outside the EU. In practice, a percentage of these parcels would reflect B2B transactions rather than B2C transactions, out of which a proportion would have been made by organisations that already benefit from VAT exemptions such as public bodies or charities.

A survey carried out by the European Commission in 2001 estimated that around 40% of total consignments handled by designated postal operators were for B2C transactions, with the remainder being B2B[70]. Of the B2B element, a proportion is likely to be out of scope or exempt as it would include public bodies, charities and other such organisations that are VAT exempt.

The European Commission concludes that such organizations account for around 50% of total EU GDP, and hence applying this percentage to the 60% of B2B transactions, would imply that 70% (40% B2C plus 30% B2B) of the total transactions for small consignments would be subject to VAT. Therefore, the VAT foregone calculation should be adjusted accordingly, with the results shown in Table 9. In addition, sensitivity analysis was performed that considered two scenarios; of 60% and 80% of total

[69] *Small Technical Working Group (STEWOG) on Small Consignments, Considerations on how to modernise the importation of small consignments, Brussels, 2 October 2001*
[70] *Ibid*

volumes being subject to VAT. These percentages were kept stable in the period of analysis.

It is to be noted that in the absence of any reliable source to estimate the C2C transactions volumes, their share was assumed to be negligible. This should also be understood in the context of recent consumer developments where an increasing percentage of C2C transactions are actually hidden B2C transactions (see Section 5.3.4 for further details).

Table 9: Estimated actual VAT foregone as a consequence of the small consignment exemption in millions (EUR) including fraud and mis-declaration, base case

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Scenario (60%)	100.83	88.91	89.85	104.72	141.12	172.61	236.68	233.62	273.96	311.88	325.42	363.54	384.32	411.50	454.93
Base (70%)	117.63	103.73	104.83	122.18	164.64	201.37	276.13	272.56	319.62	363.86	379.66	424.13	448.37	480.08	530.75
Scenario (80%)	134.43	118.54	119.81	139.63	188.16	230.14	315.57	311.50	365.28	415.84	433.90	484.72	512.42	548.67	606.58

Source: EY analysis

3.3.4 VAT foregone in Denmark and the United Kingdom (Channel Islands)

In the EU two member states have taken steps against LVCR distortions; the United Kingdom and Denmark.

The analysis presented on total small consignment volumes did not include the volume of small consignments originating from the Channel Islands, and therefore the calculation from HMRC should be included in addition to the VAT foregone calculated in this document for the United Kingdom.

The Danish Tax Authority's investigations in the first nine months of 2003 found that some 3.5 million magazines and periodicals were imported from the Åland islands, with an estimated loss of revenue of some DKK47 million[71]. The VAT foregone from 2004 to 2013 was estimated to be around DKK60 million per year[72]. With respect to the calculation undertaken by the Danish government, the relevant volumes of small consignments originating from Norway (as it is not an EU member) should already be included within the volume estimate for Denmark, but those from the Åland Islands are likely to have been excluded. Therefore, an assumption has been made that 50% of the Danish authorities estimate should be included within our VAT foregone calculation to account for small consignments from the Åland Islands.

Table 10 shows the calculations of VAT foregone by the United Kingdom and Danish Governments, as a consequence of the fulfilment industry in the Channel Islands and the reported abuse of the LVCR in the magazine industry in Denmark.

[71] *VAT on e-commerce, National Audit Office, May 2006, page 15*
[72] *"Opposition mounts to foreign magazine tax", The Copenhagen Post, February 2012*

Table 10: VAT foregone in United Kingdom and Denmark (in millions EUR)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
United Kingdom[73]	-	-	-	-	80.14	98.63	104.80	110.96	123.29	160.28	172.61	160.28	185.82	49.76[74]	-
Denmark[75]	-	-	-	-	6.31	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06	8.06

Sources: HMRC[76], Danish Government bodies and EY analysis

3.3.5 Total VAT foregone

After considering the adjustments made above for non-compliance and/or mis-declaration, the proportion of small consignments that would be exempt from VAT, and the additional VAT foregone arising from the Channel and Åland Islands, the final results of the VAT foregone calculation results are shown in Table 11. Total VAT foregone is estimated to have grown from EUR 117.63 million in 1999 to EUR 534.78 million in 2013, an increase of 355%.

Table 11: Total VAT foregone including additional United Kingdom and Denmark values (in millions EUR)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Non-EU proportion is fixed at 26% for the majority of Member States; Base low value proportions (71%); small parcels passing through the letter stream 1:8, average parcel price EUR 20, actual VAT foregone 70%															
VAT foregone (parcels data)	117.63	103.73	104.83	122.18	164.64	201.37	276.13	272.56	319.62	363.86	379.66	424.13	448.37	480.08	530.75
United Kingdom[77]	-	-	-	-	80.14	98.63	104.80	110.96	123.29	160.28	172.61	160.28	185.82	49.76	-
Denmark[78] (50%)	-	-	-	-	3.16	4.03	4.03	4.03	4.03	4.03	4.03	4.03	4.03	4.03	4.03
TOTAL VAT foregone	**117.63**	**103.73**	**104.83**	**122.18**	**247.93**	**304.04**	**384.95**	**387.55**	**446.94**	**528.17**	**556.30**	**588.43**	**638.21**	**533.87**	**534.78**

Sources: HMRC, Danish Government bodies, EY analysis

3.4 Sensitivity analysis – VAT foregone

Similar to the estimation of the volumes and in order to analyse how sensitive the results are, a number of different assumptions have been tested. The selected approach in this section has been to identify the minimum and maximum from the possible combinations, with the aim of providing a range around the base case estimate of the VAT foregone calculation

[73] Exchange rate: GBP/EUR 0.81 (2012 average), Source: Eurostat
[74] The figure for 2012 include only the first 3 month of 2012, as goods coming from the Channel Islands were no longer VAT exempt after 1st April 2012
[75] Exchange rate: DKK/EUR 7.44 (2012 average), Source: Eurostat
[76] Figures for 2003, 2011 and 2012 (up to 1st April when the LVCR VAT exemption was removed for goods coming from the Channel Islands) are calculated using linear extrapolations
[77] Exchange rate: GBP/EUR 0.81 (2012 average), Source: Eurostat
[78] Exchange rate: DKK/EUR 7.44 (2012 average), Source: Eurostat

Table 12 shows the range of VAT foregone estimates derived from the minimum, base and maximum cases defined as follows:

a. Minimum case

- Fixed trend of the proportion of small consignments originating from outside the EU (18.5%);
- Share of low value consignments - private postal operator's estimate;
- 1:5 ratios of small parcels passing through the letter stream;
- Progressive increase of parcel volumes handled by the private postal operators;
- Average parcel value is EUR10 plus transport costs;
- Non-compliance and mis-declared items are 25% of the whole VAT foregone;
- Estimated actual VAT foregone is 60% of total; and
- VAT foregone estimated provided by HMRC and 50% of the Danish Authorities are added to the VAT foregone estimates.

b. Base case

- Fixed trend of the proportion of small consignments originating from outside the EU (26%);
- Share of low value consignments - average of (private operators' weighted average, 75% and 80%);
- 1:8 ratios of small parcels passing through the letter stream;
- Progressive increase of parcel volumes handled by the private postal operators
- Average parcel value is approximately EUR 20 plus transport costs for all Member States;
- Non-compliance and mis-declared items are 25% of the whole VAT foregone;
- Estimated actual VAT foregone is 70% of total; and
- VAT foregone estimated provided by HMRC and 50% of the Danish Authorities are added to the Vat foregone estimates.

c. Maximum case

- Fixed trend of the proportion of small consignments originating from outside the EU (33.5%);
- Share of low value consignments - European Commission study on low value proportions of parcels (i.e. 80%);
- 1:10 ratios of small parcels passing through the letter stream;
- Progressive increase of parcel volumes handled by the private postal operators;
- Average parcel value is set to the maximum LVCR exemption in each Member State plus transport costs;
- Non-compliance and mis-declared items are 25% of the whole VAT foregone;

- Estimated actual VAT foregone is 80% of total; and
- VAT foregone estimated provided by HMRC and 50% of the Danish Authorities are added to the VAT foregone estimates.

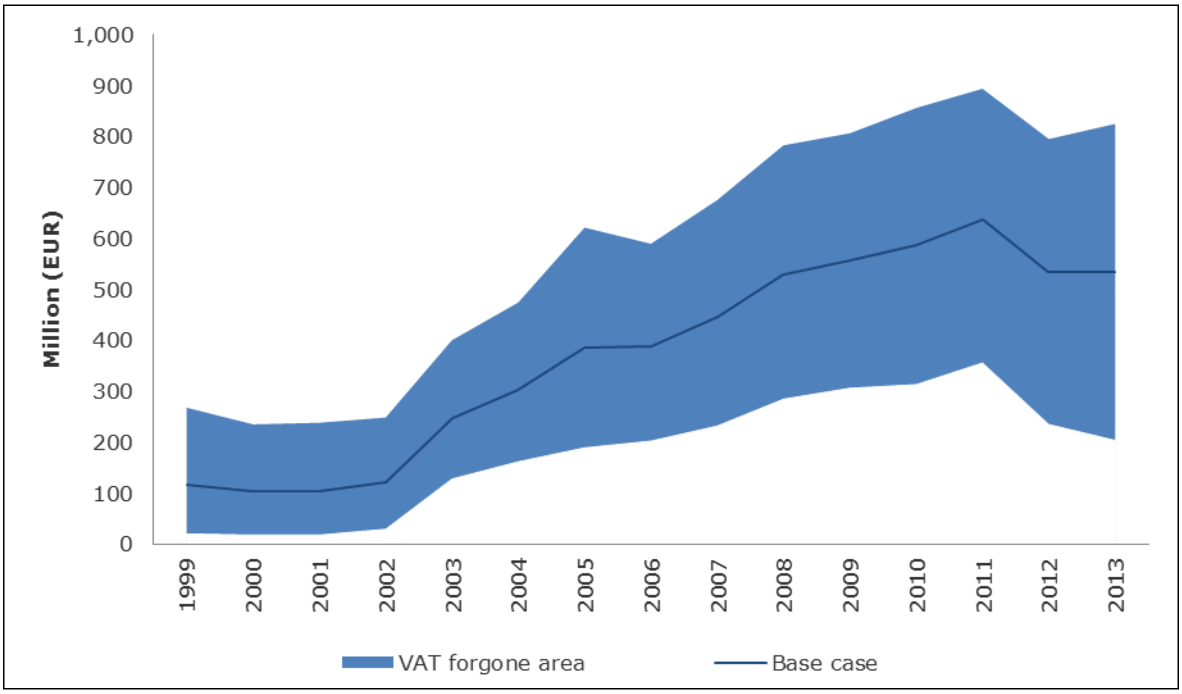
Table 12: VAT foregone in millions (EUR) in the EU-28 Member States

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	1999-2013 growth
Min	20.75	18.12	18.43	29.70	128.30	162.06	189.39	202.60	232.24	285.03	306.41	313.52	356.06	235.13	203.98	883%
Base	117.63	103.73	104.83	122.18	247.93	304.04	384.95	387.55	446.94	528.17	556.30	588.43	638.21	533.87	534.78	355%
Max	268.27	235.67	238.74	249.06	400.65	474.69	621.80	589.97	675.71	783.25	806.87	856.50	894.28	795.48	825.14	208%

Source: EY analysis

The area in Figure 5 shows the range of results for VAT foregone (including HMRC and 50% of the Danish government estimates as described above) within the EU due to the LVCR. At its maximum, the VAT foregone reached EUR 894.28 million in 2011.

Figure 5: VAT foregone range due to LVCR exemption in the EU (in million EUR) in the period between 1999 and 2013



Sources: EY analysis

In conclusion, the analysis suggests that volume of goods that benefit from LVCR has grown substantially in the period 1999 – 2013. For example, the base case volumes are estimated to have grown from 29.78 million in 1999 to reach a maximum of 114.85 million in 2013, a total increase of 286%. This growth in postal volumes is most likely explained by the increase of individuals shopping online in the EU.

The corresponding VAT foregone grew from EUR 117.63 million in 1999 to EUR 534.78 million in 2013, an increase of 355%. This significant increase in the value of VAT foregone as a consequence of LVCR should be seen in the context of an increase of EU GDP of just 50% over the same period. The maximum VAT foregone is estimated to have reached EUR 894.28 million in 2011.

This substantial growth in volumes of small consignments sent from outside the EU, and the associated VAT foregone demonstrate that the LVCR has caused a competitive distortion in which trade from outside the EU is given a fiscal advantage. It further results in an economic incentive to businesses to relocate their operations or supply chains outside the EU to benefit from VAT savings at the detriment of businesses located or operating exclusively within the EU.

4. Changes in trade patterns/trade flows and importation behaviour

4.1 Approach

Evidence of existence of distortive behaviours can come in various forms, one of which is a sudden change in importation behaviour, or a gradual and sustained change in trade patterns which cannot be explained by economic growth or domestic consumption.

The LVCR provisions were initially intended to minimise compliance costs, and were established before the wide spread computerisation of customs, and the rapid growth in e-commerce. The VAT Directive[79] requires the need not to distort competition, and hence to the extent that the LVCR has resulted in an increase in imports from outside the EU, this should not be at the expense of competing localised trade or lead to the relocation of businesses to non-EU countries for the purposes of VAT avoidance.

Therefore, this section examines the origin and proportion of imports into EU Member States originating from outside the EU and how this has changed over time. In particular, it focuses on the trends in importation of products originating from the US, Norway and Switzerland, with imports from other non-EU countries being grouped together as "Other"[80]. These trends are then compared to the change in domestic consumption.

Any change in the proportion of imports for LVCR products should ordinarily be seen in the context of economic growth, change in domestic consumption or an overall change in imports from outside the EU due to factors such as exchange rate movements.

The period 1999 – 2013 saw a rising share of EU consumption by extra-EU imports. For example, annual GDP growth across the EU averaged 3% during the period 1999 – 2013, while over the same period, imports from outside the EU have grown at an annual average of 6%[81]. Therefore, any analysis of trends in importation behaviour should be seen in this context.

In order to perform the analysis, official import statistics from Eurostat have been used. While the majority of the goods captured in import statistics would be as a result of B2B transactions, the data will include imports of some goods from B2C transactions. Furthermore, it represents the most robust source of information to capture changes in import composition as it includes product level prices and volumes, which are not contained in the UPU data set on parcel volumes.

[79] *For more information on the legal basis, please refer to Part I, Section 2.2.1.*
[80] *The choice of US, Norway, and Switzerland was agreed with the European Commission based on various complaints sent to the Commission on this issue.*
[81] *Eurostat*

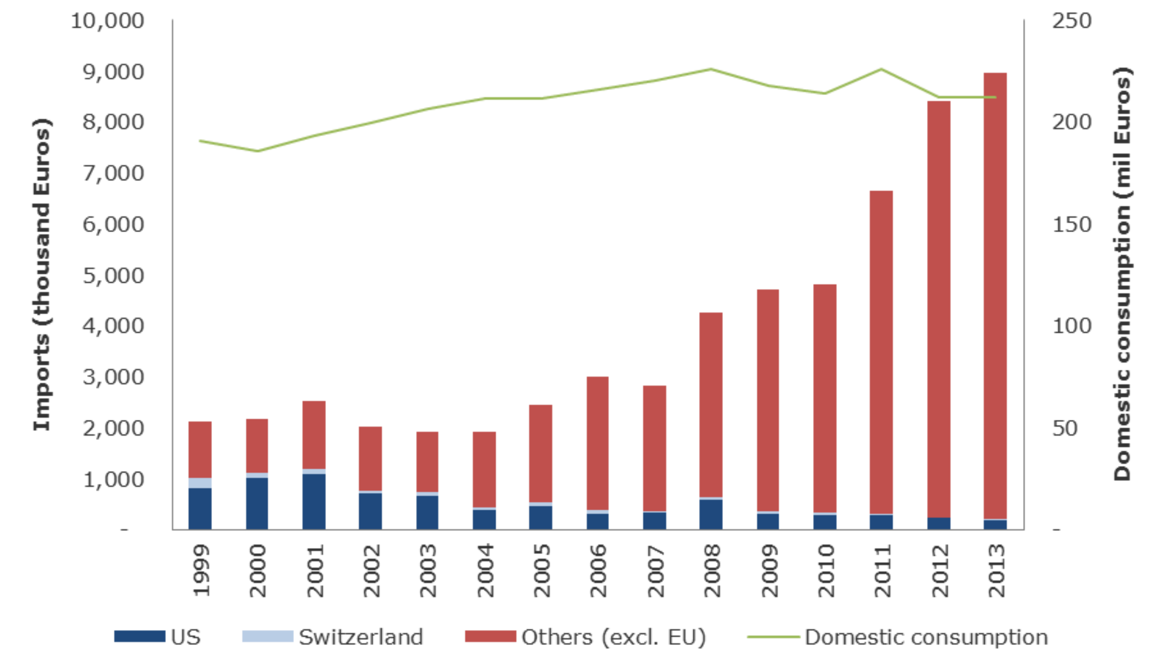
The subsequent sections in this study examine the trend and drivers of non-EU imports in selected Member States and for selected products where clear evidence of distortions can be identified.

4.2 Slovenia - books

As shown in Figure 6, there has been a considerable increase in the imports of books into Slovenia, which have grown by 300% in the period from 1999 to 2013, compared with growth of just 11% in domestic consumption over the same period. The "Others" imports category on Figure 6 consists primarily of imports of books from China.

This could be indicative of the existence of a distortion arising as a consequence of the LVCR. The fact that domestic consumption of newspapers, books and stationery is only growing gradually (1% average per year growth) suggests that there may be a supply-substitution effect from countries outside the EU, and LVCR could well be a component of this.

Figure 6: Slovenia books imports from extra EU countries in thousands EUR and domestic consumption of Newspapers, Books and Stationery in millions EUR



Source: Eurostat

4.3 Germany - greetings cards

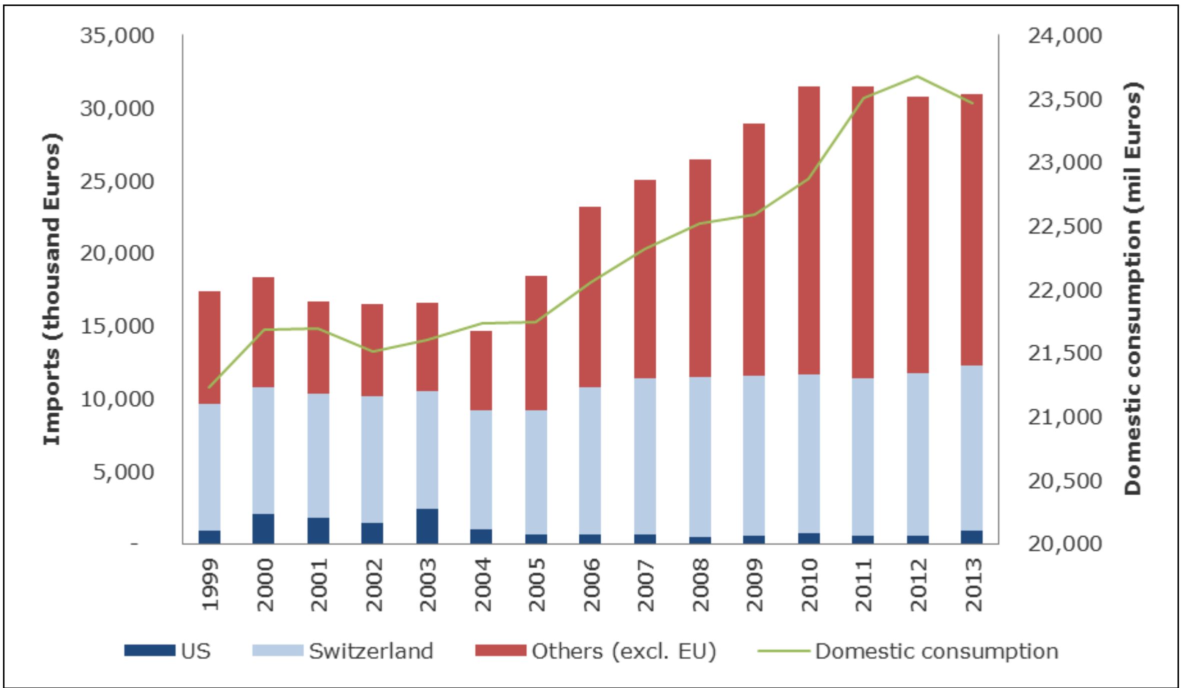
The data on demand for greeting cards in Germany shows an increasing trend of imports from outside the EU, with almost all of this increase coming as a result of imports from Switzerland and China[82].

[82] *Import category "Others" on Figure 7*

The volume of greeting cards imports doubled in the period 2004 to 2013; the average annual increase is 9%. This growth has outstripped domestic consumption which grew on average by 1% per year, and total non-EU imports into Germany for the same period which recorded growth of 6% per year.

Therefore, in the absence of domestic consumption growth to match the significant growth in these imports, this data suggests that the LVCR may have provided suppliers in Switzerland with an advantage over those in EU member states enabling them to gain market share.

Figure 7: Germany greetings cards imports from extra EU countries in thousands EUR and domestic consumption of Newspapers, Books and Stationery in millions EUR



Source: Eurostat

4.4 Sweden and Denmark - magazines

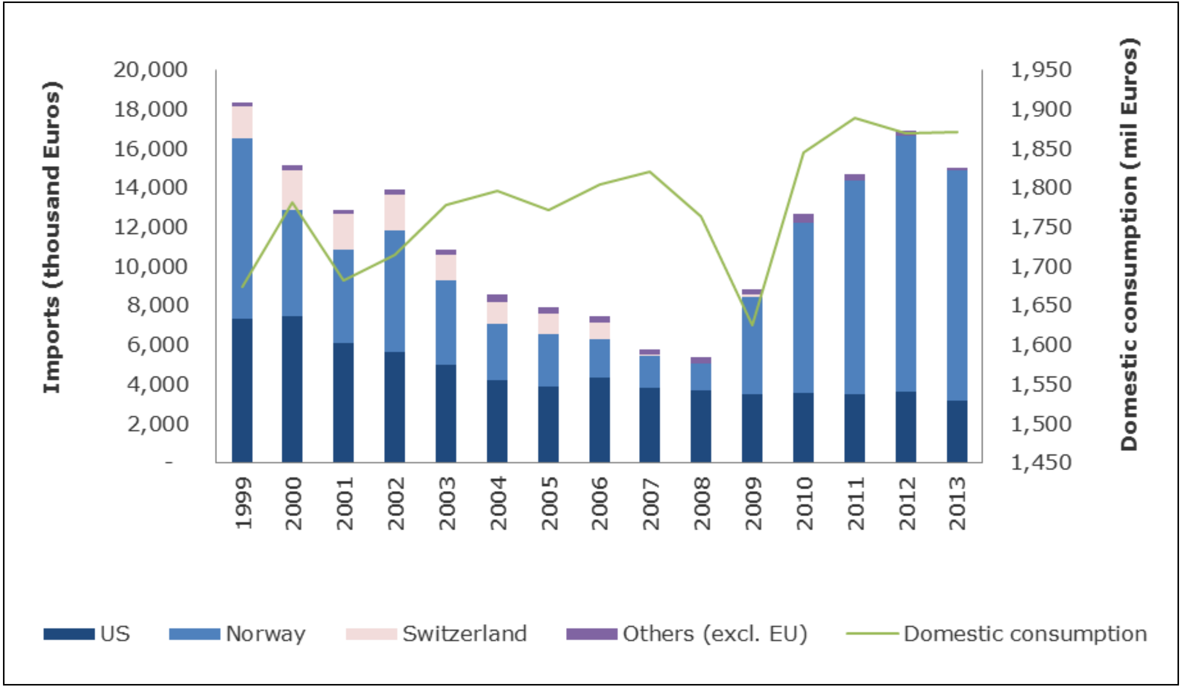
Cases in Sweden and Denmark can be identified where a competitive distortion due to the existence of the LVCR may be present in the market for magazines.

4.4.1 Sweden

Figure 8 shows a comparison of magazine importation growth and domestic consumption in Sweden. Domestic demand for magazines grew by 11% between 1999 and 2013. Over the same period, imports of magazines originating from Norway show a significant increase, growing from 26% in 2008 to 78% in 2013 of overall magazine imports.

It is likely that the LVCR, which applies to imports from Norway, explains elements of this increase, particularly as there are no obvious underlying economic differences between the two countries (such as for example, lower labour costs) that would explain such a significant change in magazine imports.

Figure 8: Sweden magazines imports from extra EU countries in thousands EUR and domestic consumption of Newspapers, Books and Stationery in millions EUR



Source: Eurostat

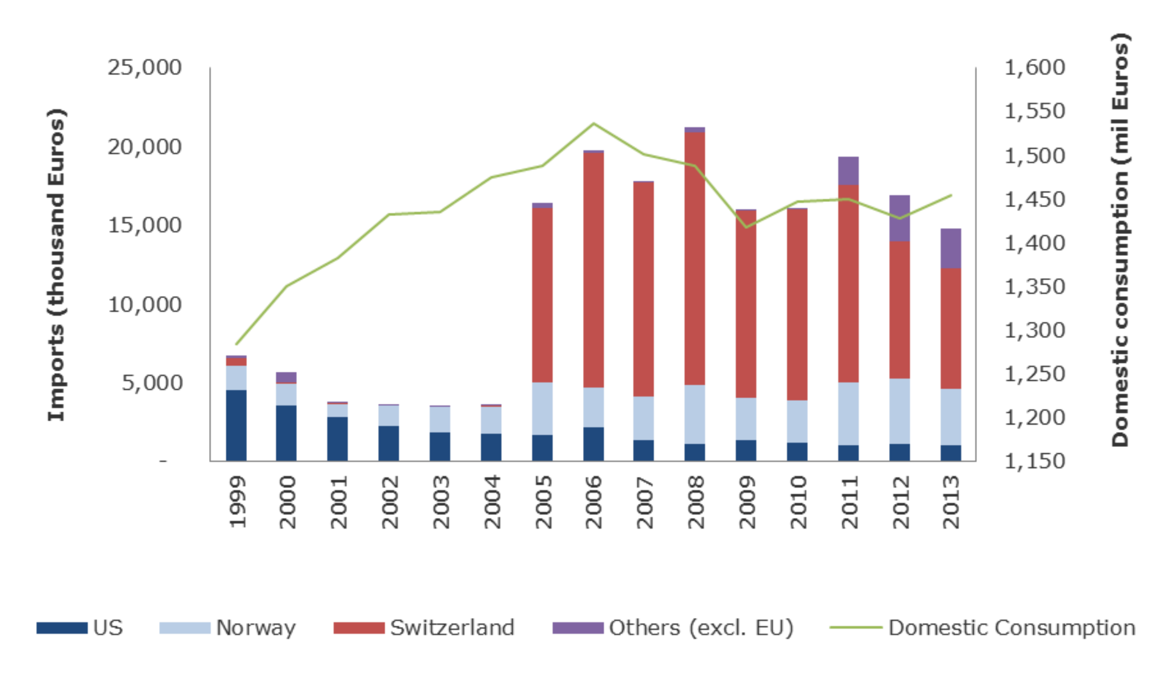
4.4.2 Denmark

A similar trend can be observed in the Danish market for magazines; i.e. in 2005 imports from Switzerland increased dramatically and remained high in volumes until 2013, peaking at EUR 16 million in 2008, or 75% of total. Imports from Norway also increased substantially from 2005 onwards, peaking at 24% of total imports in 2012.

To put this growth in context, the total value of imports into Denmark from outside the EU increased by about 5% in the ten year period to 2013 while magazine imports in the same period increased by over 300%.

The significant change in the profile of imports does suggest that a competitive distortion may have occurred as a consequence of the LVCR. This is consistent with the qualitative assessment presented in Section 5.3.2 of this report.

Figure 9: Denmark magazines from extra EU countries in thousands EUR and domestic consumption of Newspapers, Books and Stationery in millions EUR



Source: Eurostat

4.5 United Kingdom - CDs, DVDs and video games

Figure 10 shows the change in the value and source of imports of CDs, DVDs and video games in the United Kingdom from outside the EU in the period from 1999 to 2013.

It should be noted that, according to official UK custom statistics methodologies, imports to the United Kingdom from the Channel Islands are not recorded in either intra-EU or extra-EU statistical records[83].

A large increase in import of CDs/DVDs/Video Games coming from China can be observed in the period between 2007 and 2011, almost tripling between 2006 and 2007. As noted, the "Others" category consists primarily of imports from China. In the same period, domestic consumption of audio-visual, photographic and information processing equipment actually contracted by 32%.

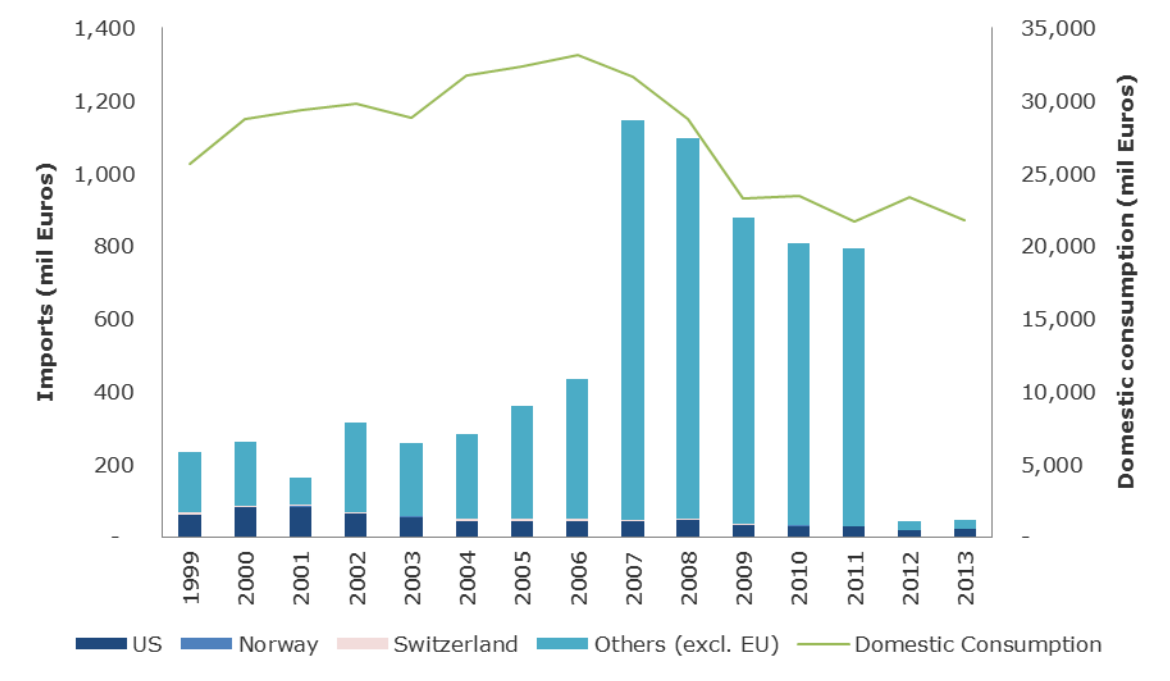
As described in Section 5.3.1 the UK Government identified the distortion that arose as a consequence of the LVCR, and published draft legislation in 2011 to remove the LVCR exemption for imports into the United Kingdom from the Channel Islands. Although this was challenged in the courts, the UK Government was successful in

[83] *Although the information could be identified from official Channel Island Government sources – see for example the 2012 Jersey Postal market report issued by the Jersey Competition Regulatory Authority http://www.cicra.gg/_files/CICRA%201218%20Jersey%20Postal%20Sector%20Review%20Report.pdf*

pushing the legislation through, and on 1st April 2012 incoming mail from the Channel Islands no longer benefitted from the LVCR[84].

The impact of the removal of the exemption is evident in the graph below, which shows a steep decrease in CD/DVD/video games imports into the United Kingdom from outside the EU after 2011.

Figure 10: UK CDs/DVDs/Video Games imports from extra EU countries and domestic consumption of audio-visual, photographic and information processing equipment in millions EUR



Source: Eurostat

[84] *http://webarchive.nationalarchives.gov.uk/+/http://www.hmrc.gov.uk/news/removal-lvcr.htm*

5. Qualitative assessment of the impact on the distortion of competition as a consequence of the LVCR

5.1 Approach

In addition to the quantitative analysis presented in previous sections, a qualitative assessment has also been undertaken to identify examples of competitive distortions arising as a consequence of the LVCR.

There were three strands to the analysis:

1. Trend analysis – further qualitative exploration of the trends identified in the quantitative analysis in Sections 2 to 4.
2. Literature and evidence – a review of relevant literature covering complaints, court cases, restructures, or relocations connected to the LVCR.
3. Industry questionnaire – questionnaires and interviews with stakeholders (industry bodies and associations, national authorities, etc.).

This analysis has been used to develop a number of case studies of competitive distortion for specific countries and/or for specific goods, and these are presented below.

5.2 Industry questionnaire

A key part of the qualitative analysis was the process by which evidence was sought from relevant business associations. Seventy nine business associations across the EU were contacted to discuss the extent to which they considered their members had been affected by the LVCR. Responses were received from eleven organisations, and these are listed in Annex P alongside the full list of contacted businesses.

Detailed responses were received from three organisations:

Association of Austrian Textile, Clothing, Shoe and Leather Industry
The Association represents companies that produce textiles and shoes. They stated that their members are opposed to the LVCR as they do not see the justification for having the relief on goods imported into the EU, and argue that both EU companies and foreign companies should be treated equally. However, they did not provide evidence to demonstrate a negative impact on their members.

Confederation of Finnish Industries
The Confederation of Finnish Industries is a non-profit organisation representing Finnish companies. It has 27 Member organisations representing 16 000 Member companies. These companies:

- Contribute 70% to Finnish GDP;
- Contribute 95% to Finnish exports;

- Include SMEs and large multinational companies; and
- Represent over 1 million workers, out of a total population of 5 million in Finland.

A number of the members of this organisation have expressed concerns in respect of the LVCR, but the Confederation had not undertaken any analysis of the impact.

However, the Confederation did highlight the Åland Islands[85] as a source of imported goods into Finland, with those goods often below the LVCR threshold.

In this example, the Confederation in their response to the questionnaire, argued that magazine publishers had moved their businesses to the Åland Islands to take advantage of the LVCR after the applicable VAT rate increased from a zero rate to a rate of 9%.

In 2013, the Finnish government reduced the threshold below which duties and taxes on imports are not collected from EUR 10 to EUR 5. According to the Confederation, this reduction decreased offshore trade in CDs and DVDs but did not have an impact on magazines and newspapers supplied through the Åland Islands. This was mainly because the LVCR threshold is based on a single periodical (e.g. one magazine or newspaper); the price of which would still fall below the minimum collectable VAT amount of EUR 5.

The Confederation mentioned that the US (the US is Finland's biggest trade partner for supplies to private customers) and countries in the Far East were also potential sources of imports that benefit from the LVCR at the expense of producers from within the EU.

Retailers Against VAT Avoidance Schemes ("RAVAS"), United Kingdom

RAVAS was formed in 2010 in order to highlight and campaign against the alleged abuse of the LVCR which they suggest was being used by retailers to avoid charging VAT on mail order goods. Data was received from RAVAS regarding the removal of the LVCR exemption for the Channel Islands by the UK Government. This included evidence presented to the Judicial Review in 2012 and data from retailers across a variety of products, including CDs and DVDs.

More recently, RAVAS has continued to campaign with regards to the potential abuse of the LVCR from other non-EU locations, such as Switzerland and the US. The table below provided by RAVAS summarises responses received from some businesses in the United Kingdom.

[85] The Åland Islands is a politically neutral and autonomous group of Islands which forms part of Finland located between Sweden and Finland. Though EU law applies to the Islands, there are however some derogations due to the Islands' special status. For example, Åland is outside the VAT area and is exempt from common rules in relation to some taxes.

Table 13: Business responses on the impact of the LVCR (Provided by RAVAS)

Industry	Business response
Para-pharmaceutical products	A business outlined that health food industry traders based in the Channel Islands and Gibraltar used circular shipping to exploit the LVCR. Therefore, sales and market share in their market are below the levels that would have otherwise been achieved. Similar feedback was received from other companies operating in this industry and other issues related to the LVCR have been reported by the Health Food Manufacturers' Association which has 127 members (90% are based in the United Kingdom).
Domestic appliance spare parts and consumables	A business reported abuse of the LVCR in the period 2010-2012 which has led to a reduction in sales and profits of around 20% for that business. It is now reported that other EU countries are experiencing similar competition issues.
PC printer cartridges	A business reported abuse of the LVCR before 2012.
Video Games	A business explained that between 2006 and 2012 whilst the Channel Island trade was operating, they were undercut on price. The business believes that abuse of the LVCR is still occurring as some competitors have started making use of the LVCR through supplying via Switzerland and the United States of America. Similar feedback was received from another business dealing with video games. They report that the abuse of the LVCR has resulted in declining sales, loss of profits, employment and inventory levels. The business reports that 6-8 weeks after the removal of the LVCR on goods from the Channel islands, the flow of goods from there stopped. However, they maintained that the suppliers moved elsewhere and that there is still distortion in the market as a result of the LVCR.
CDs/DVDs	Reported abuse of the LVCR by various businesses, please refer to section 5.3 for further details.
Cosmetics	Abuse of the LVCR was identified as coming from the Channel Islands, Gibraltar, Åland Islands, Switzerland and other non-EU countries.
Cut Flowers	A business reports known VAT abuse from the Channel Islands involving circular shipping in the period 1992 to 2012. However, they did state that since the VAT loophole was closed, they are not aware of any other issues relating to the LVCR in this industry in the United Kingdom.

Source: RAVAS

The response to the questionnaire, while limited, has highlighted a number of competitive distortions arising as a consequence of the LVCR. It is worth noting that small and medium enterprises, who are not members of formal associations, are likely to have felt the greatest impact from these distortions, and the questionnaire responses would not reflect their concerns. Besides, it is also likely that some firms may have exited the market as a consequence of the LVCR, and again such examples would not have been captured as part of the questionnaire exercise.

5.3 Case studies

Using the analysis of changing import patterns from Section 4, the response to industry questionnaires, and additional qualitative research, a number of case studies of competitive distortions have been identified stemming from the LVCR across the EU. These are presented in more detail below.

5.3.1 United Kingdom and Channel Islands

5.3.1.1 Background

The United Kingdom had set the LVCR threshold for commercial consignments at the upper end of the range allowed for by Directive 2009/132/EC (GBP 18 ~EUR 22), which also applies to goods purchased over the internet from outside the EU. In accordance with Directive 2006/79/EC, a separate and higher threshold (EUR 45) is applied with regard to the importation of non-commercial consignments.

The Channel Islands fall into two separate self-governing bailiwicks; the Bailiwick of Guernsey and the Bailiwick of Jersey, which are British Crown Dependencies but not part of the United Kingdom. They are therefore not members of the EU and for VAT purposes are assimilated to third countries (please see Article 6.1 of the VAT Directive).

Therefore, goods sent from the Channel Islands to EU Member States (including the United Kingdom) were exempt from VAT under the LVCR provision.

5.3.1.2 Market Structure

As a consequence of the LVCR relief, during the early-to-mid-2000s, an increasing proportion of the UK market for online purchases of DVDs and CDs was being fulfilled via warehouses in the Channel Islands. One of the earliest players in the UK e-commerce market was Jersey-based Play.com, who established themselves as leading players in the DVD and CD sector. Whilst larger UK retailers could compete with their price advantage thanks to economies of scale, smaller UK retailers were vulnerable to this competition.

Consequently, some UK retailers began to relocate to Jersey leading to strong growth in the Jersey fulfilment industry. For example, total fulfilment volumes grew by 6.9% between 2003 and 2004 from 75.6m to 80.8m[86]. Total volumes of mail handled in 2005 increased by a further 2.2% to 82.3 million. This increase was again attributed to significant growth in the fulfilment sector[87].

Until 2009, this growth trend in bulk mail from Jersey remained positive. Jersey Post's outgoing bulk mail volumes increased by 74% between 2005 and 2010, from 30.8m items to 53.5m items[88]. By 2010, it was estimated that the fulfilment industry in Jersey was worth £360m per year, with the largest companies, Play.com and ILG comprising 80% of the total industry[89].

A similar trend was observed in Guernsey. For example, for Guernsey Post international deliveries represented a large segment of the market with 87% delivered to the United Kingdom in 2011. Bulk mail was a significant element of this: in 2011 five customers were responsible for about 70% of the volume of mail sent to the United Kingdom[90].

[86] *States of Jersey Treasury, Financial Report and Accounts 2003.*
[87] *States of Jersey Treasury, Financial Report and Accounts, 2005.*
[88] *Jersey Competition Regulatory Authority, "Jersey Postal Sector Review", February 2012.*
[89] *Ibid.*
[90] *The Universal Service Obligation for Postal Services in Jersey Green Paper (2010).*

Income for Guernsey post increased by 5% in 2009/10 thanks to strong growth in priority services and United Kingdom and International bulk mail volumes.[91] In the same year, Guernsey's fulfilment industry employed around 650 people and had a turnover of £300m[92].

5.3.1.3 Retailers

In 2007, according to Eurostat data, a significant increase in CD and DVD imports into the United Kingdom was observed, almost tripling from the previous year. Some retailers located outside the EU were able to sell goods that were £18 or less VAT-free[93]. Online retail sales grew by nearly 50% in 2008 to reach £13.8bn, more than doubling by 2012 to reach £28.9bn[94].

One indication of the potential competitive distortion arising from the LVCR was the increasing number of CDs and DVDs valued less than £18 sold online rather than in stores. A study by Kantar Worldpanel found that in 2009 there was an 18% increase in the volume of online CD sales whereas music sales volumes declined 33% for traditional music stores and retailers[95]. The report also highlighted that 95% of online DVD transactions were below the £18 threshold at which LVCR applies. The proportion of CDs bought on the web for more than £18 was so small as to be "statistically insignificant"[96].

Matt Moulding, CEO of thehut.com, which provided logistical fulfilment services to UK companies from the Channel Islands, stated that Channel Island retailers accounted for 96% of the online CD & DVD market[97]. In 2009 Matt Moulding told the Guardian:

"Everybody does it. If you look at the main players you've got Amazon, HMV and Play who have got 80% of the entertainment marketplace and they're offshore. And we make up pretty much the balance; we have about 15%, 16% now. If you aren't offshore you couldn't possibly compete. Your cost price would be above what people would be retailing at."[98]

This competitive distortion may well have contributed to the fall in independent music and DVD stores in the United Kingdom from 985 in 2005 to 445 in 2009[99].

5.3.1.4 Government response

During the 2006 Budget it was noted that:

"In 1984, a VAT-free threshold on imports of small commercial consignments from outside the EU was introduced at a level of £18, as an administrative relief. The Government *is aware that this provision is currently being exploited….If the relief*

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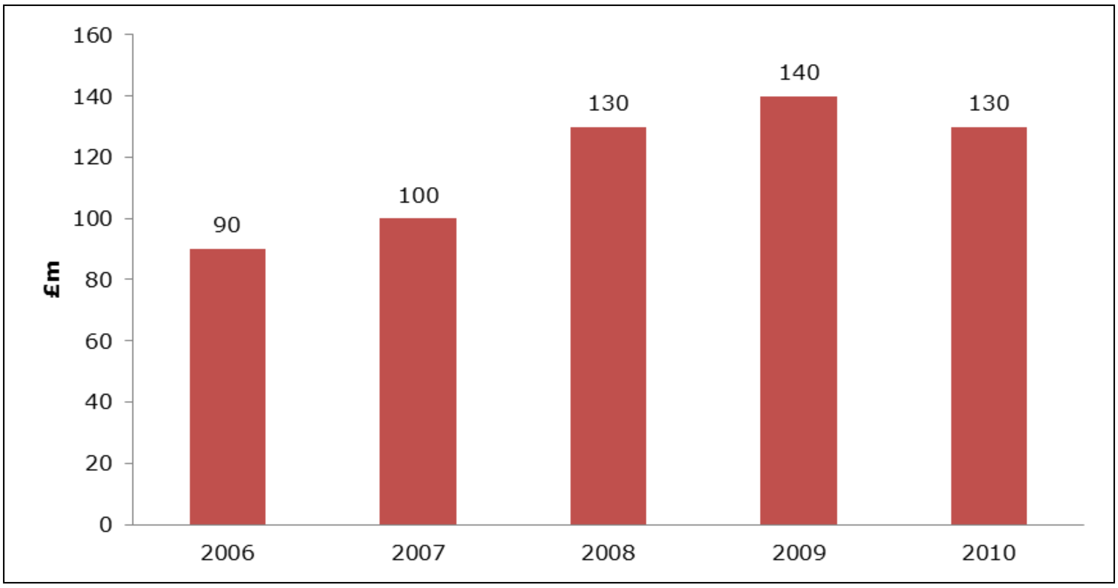
[91] *Guernsey Post Annual Report 2010.*
[92] *http://www.bbc.co.uk/news/world-europe-guernsey-15562872.*
[93] *VAT on postal packages, Parliament, September 2013.*
[94] *Mintel, E-Commerce UK, July 2013.*
[95] *"Boom in sales of tax-free CDs casts doubt on Treasury claims", Guardian, February 2010.*
[96] *Ibid.*
[97] *Evidence submitted by Retailers Against VAT Abuse Schemes (RAVAS) to UK Parliament, January 2011.*
[98] *"Zavvi name sold to online retailer", Guardian, March 2009.*
[99] *Entertainment Retailers Association, quoted from "Budget 2011: Chancellor moves to close online VAT loophole", Guardian, March 2011.*

continues to be exploited by businesses using offshore locations, the Government will consider changes to prevent this type of behaviour."[100]

The Exchequer estimated revenue foregone as a result of the provision of LVCR to be £90 million in 2006, totaling nearly £600 million between 2006 and 2010 (Figure 11). This was calculated by deriving an estimate of the fulfilment industry in the Channel Islands and applying the appropriate VAT rate.

Figure 11: HMRC estimated of loss of VAT from LVCR distortion in the Channel Islands (£m)



Source: Exchequer, 28 March 2011

Note: 2009 figures reflect the temporary cut in the standard rate of VAT from 17.5% to 15%.

In order to address these competitive issues, the UK government announced from 1 April 2012 that LVCR will no longer apply to goods sent to the United Kingdom from the Channel Islands. The Chancellor stated the Government's intention to take action to end the exploitation of the LVCR, which in recent years has been used on an increasingly large scale to sell low value goods to UK customers VAT-free. Most of this trade is from, or via, the Channel Islands. HM Treasury noted that this reform would bring increased fairness for UK businesses, benefit the UK economy and protect millions of pounds in tax revenue.[101] Treasury Minister David Gauke stated:

"These reforms will ensure that UK companies, especially small and medium sized enterprises, can compete on a level playing field with those larger companies with the resources to set up operations in the Channel Islands."[102]

In 2014 HMRC announced that the abolishment of the LVCR for consignments shipped from the Channel Islands led to a 200% increase in import VAT from the Channel

[100] *Budget 2006, UK Government.*
[101] *"Government ends exploitation of Channel Islands VAT rules", HMRC, November 2011.*
[102] *"VAT free loophole to be closed by UK Treasury", November 2011*

Islands, worth an estimated £95 million a year or totaling £490 million between fiscal year 2011/12 and 2015/16[103].

5.3.1.5 Impact on Jersey and Guernsey

Whilst the LVCR was detrimental to UK businesses and UK VAT revenues, in the Channel Islands a significant fulfilment industry was established and grew rapidly as a consequence of LVCR.

The e-commerce sector in the Channel Islands was heavily reliant on online sales, as stated by Senator Maclean:

"Online sales are an important part of Jersey's e-commerce sector. Its companies employ more than 700 people, the majority of whom are locally qualified. This usiness also produces significant revenue for Jersey Post and other postal operators."[104]

Consequently, the removal of the LVCR had a significant impact on the industry. One such impact was that VAT had to be paid on all goods imported into the United Kingdom, though this could be prepaid as a result of a scheme operated by Jersey Post. The prepayment scheme reduced customs clearance delays for customers posting to the United Kingdom. In addition, it prevented the addition of a VAT collection charge of £8 which is levied by the Royal Mail if it needs to collect the tax due from the recipient. The number of scheme members increased during the course of 2012 and at the end of the year totaled 132. The total VAT collection under the scheme for 2012 was £17,858,516, most of which was collected during the first quarter of 2012 when the LVCR was still available.[105]

Below is an example of how the removal of the LVCR impacted one particular fulfilment firm as detailed on Nick Le Cornu's blog[106]. The firm in question submitted evidence to show the rapid decline of the fulfilment industry after the abolition of LVCR on 1st April 2012.

The firm saw two, quite different, impacts of this in Jersey and Guernsey respectively. In Jersey, some clients withdrew immediately, whilst others waited to see what would happen whilst Jersey appealed in the UK Courts. By contrast in Guernsey, the end was immediate, with virtually 100% redundancy.

The table below shows the figures submitted in evidence for order numbers, total employee hours and staff numbers over the months after 1st April for this particular firm in Jersey.

[103] *HMRC Fast Facts, May 2014 Bulletin*

[104] *UK consumers to pay VAT on all goods from Islands – Economic Development Minister disappointed at ending of Low Value Consignment Relief (09 November 2011): E-commerce sector http://www.gov.je/News/2011/Pages/LVCREnd.aspx*

[105] *Customs and Immigration Service Annual Report 2012*

[106] *http://district1sthelier.blogspot.be/2013/03/lid-off-jersey-fulfillment-industry.html*

Table 14: Example Jersey fulfilment company orders and jobs contraction

Month (2012)	Orders	Hours	Staff
March	103,000	3,400	21
April	31,000	2152	12
May	23,000	1723	11
June	17,400	934	7
July	16,380	910	7
August	10,500	n/a	7
September	3,800	569	4

Source: http://district1sthelier.blogspot.be/2013/03/lid-off-jersey-fulfillment-industry.html

As shown in

Table 14, the rapid decline of orders and employment in this company in 2012 after the abolition of the LVCR on 1st April 2012 clearly demonstrates the direct link between the LVCR provisions and the Jersey fulfillment industry.

Similarly, the impact of the removal of the LVCR was felt across Guernsey. In 2010 Guernsey's fulfilment industry employed around 650 people and had a turnover of £300m[107]. However, seven out of the top ten bulk mail customers left Guernsey Post in 2012 following the removal of the LVCR[108], including companies such as HMV, CD Magpie, The Hut, 7dayshop.com and Thompson and Morgan who all moved their warehouse operations from Guernsey. The impact meant that Guernsey's fulfilment sector contracted by around 50% in 2013[109], with a fall in bulk mail volumes of 78% and a subsequent reduction in the number of full-time posts at Guernsey Post of 12%.

The case of the Channel Islands therefore represents a clear example of a competitive distortion arising as a result of the LVCR. As a consequence of this distortion, a number of firms relocated from mainland United Kingdom to the Channel Islands to take advantage of the LVCR to serve (primarily) UK-based consumers, to the detriment of firms remaining within the EU, and at the cost of considerable VAT foregone to the UK's HMRC.

Following the removal of the LVCR on goods coming from the Channel Islands, fulfillment companies shut their operations in the Channel Islands. Again, this demonstrates the distortive nature of the LVCR exemption.

5.3.2 Magazines imported from the Åland Islands

In Section 5.2, the viewpoint of the Confederation of Finnish Industries was presented which considers that competitive distortions exist for businesses in Denmark and Sweden as a consequence of magazines being imported from the Åland Islands to take advantage of the LVCR. These two cases are explored in more detail below.

[107] http://www.bbc.co.uk/news/world-europe-guernsey-15562872
[108] Guernsey Post Annual Report 2013
[109] http://guernseypress.com/news/2013/02/18/fulfilment-sector-shrinks-by-50/

5.3.2.1 Denmark

Denmark provides relief from import VAT for imports of small consignments of a commercial nature from outside the EU. The Danish LVCR threshold is DKK80 (~EUR 10.75[110]).

The Åland Islands, a group of more than 6,500 islands located between Finland and Sweden is an autonomous region of Finland. From a VAT perspective they enjoy a similar treatment as the Channel Islands as they are outside the VAT territory of the EU. Therefore, for any products brought into the EU from the Islands import VAT must be paid, in a similar way to goods imported from non-EU countries.

Consequently, imports from the Åland Islands into Denmark below the LVCR threshold are exempt from the Danish VAT rate of 25%.

5.3.2.2 Magazines and import VAT

Danish Tax Authority investigations during the first nine months of 2003 found that an estimated 3.5 million magazines and periodicals were imported from the Åland Islands, with an estimated loss of revenue of DKK47 million (~EUR 6.3 million)[111]. According to a newspaper article[112] it was the view of the industry that many publications were printed in the EU and then sent to the Åland Islands before being delivered to Danish customers after import relief had been claimed.

In 2005 the Danish government obtained a derogation[113] from the European Commission allowing Denmark to impose VAT on small consignments of magazines imported to private individuals which had previously been printed in the EU and exported (for example via the Åland Islands). The derogation was set to apply until 31 December 2010.

According to Danish newspapers, a number of "critics" stressed that the loophole still existed since the publishers could print magazines in a non-EU country and still qualify for the import VAT relief.[114] In 2005 the Graphic Association (a trade association representing over 400 companies in the printing and graphics industry) noted that magazine imports from Norway and Switzerland, both non-EU countries, increased nine fold in volume terms in 2005 over the period of one year.[115] Thomas Torp, CEO of Graphic Association noted that around 40% of Danish-language based magazines are no longer printed in Denmark.[116]

The competitive distortion arising from this tax loophole has led to an estimated loss of approximately 500 jobs and lost revenue to the Treasury of DKK60 million per annum (~EUR 8 million[117]) since 2004. The viewpoint of the graphic industry in Denmark is that they can compete with other countries as they are a productive, high-

[110] *Currency rate 1st January 2014: 1 EUR = 7.473 DKK*
[111] *VAT on e-commerce, National Audit Office, May 2006*
[112] *The story of a tenacious VAT loophole", Berlingske, April 2014*
[113] *Council Decision 2005/258/EC, OJ L 78 of 24 March 2005*
[114] *"The story of a tenacious VAT loophole", Berlingske, April 2014*
[115] *Ibid*
[116] *"Graphic Industry requires VAT loophole closed", Berlingske, April 2014*
[117] *Currency rate 1st January 2014: 1 EUR = 7.473 DKK*

tech and effective industry. However, the tax loophole makes this difficult: print shops have had to be closed and jobs have been lost.[118]

5.3.2.3 Danish Legislation

In 2012 legislation was considered by the Danish parliament to introduce a 25% VAT charge on all magazines imported from outside the EU, with the aim of attracting publishers back to Denmark.[119] Post Danmark, the Danish postal service, warned that if this legislation went through, it would have to manually sort all magazines arriving from outside the EU meaning subscribers would incur an importation fee of DKK 160 (EUR 21.6) for every issue.[120]

Additionally, the US argued that if this law was passed in Denmark, it would lead to a levy which contravenes the Florence Agreement (a treaty whereby states agree not to impose customs duties on certain educational, scientific, and cultural materials that are imported).[121]

US Congresswoman Shelley Moore Capito wrote an open letter to President Barack Obama demanding that he raise this issue in his meeting with the Danish Prime Minister, Helle Thorning-Schmidt.[122] Following on from this the Minister for Taxation, Thor Moger Pedersen announced that the bill would be postponed.[123]

Recently politicians have voiced their willingness to address the import relief, Mads Roedvig, Liberal Party spokesman commented:

"The solution Thor Möger put up was too extreme because customers' subscriptions risked increase from a few hundred to several thousand Danish kroner. That was disproportionate. If we can find a solution that would be better targeted we should go ahead."[124]

A new law is envisaged to enter into force as of 1 July 2015 eliminating the VAT exemption for the Danish language magazines (see Part I).

5.3.2.4 Finland

The Confederation of Finnish Industries considers that the LVCR represents a competitive disadvantage for its members and that there has been evidence of "aggressive tax planning" from the Åland Islands.

Based on the legislative review outlined in Part I, it is understood that Finland applies the LVCR for all goods imported on mail order. When the Finnish government in 2011 approved the VAT increase for specific goods, including for magazines and newspapers[125], the Confederation of Finnish Industries believes that this led to the situation whereby publishers moved a proportion of their business to the Åland Islands with the aim of achieving a VAT advantage.

[118] *"Graphic Industry requires VAT loophole closed", Berlingske, April 2014*
[119] *"Opposition mounts to foreign magazine tax", The Copenhagen Post, February 2012*
[120] *Ibid*
[121] *Ibid*
[122] *Ibid*
[123] *"The story of a tenacious VAT loophole", Berlingske, April 2014*
[124] *"Political willingness to solve the problem", Berlingske, April 2014.*

The Finnish VAT Act was amended as of 1 January 2013, which reduced the threshold below which duties and taxes on imports are not collected from EUR 10 to EUR 5. The provisions regarding the LVCR threshold (EUR 22) were, at that point, maintained. The general aim was to reduce the supply of CDs and DVDs through the Åland Islands. However, the Confederation believes that magazines and newspapers continued to be supplied through the Åland Islands, due to the threshold of the exemption applying to a single periodical (e.g. one magazine or newspaper), rather than an annual subscription.

As part of the research undertaken, material was identified from an entity in the Åland Islands that highlighted "VAT-free fulfilment services" to online retailers in Europe[126]. This material was accompanied by an estimation of the additional profit margin businesses will earn as a result of the LVCR provisions. This provides clear evidence of existence of entities that actively seek to attract businesses to the Åland Islands, with a view to helping them exploit LVCR for financial gain.

The Ministry of Finance in Finland has recently published new regulations to remove the LVCR for imports of newspapers and magazines published once a week or less frequently which are dispatched from the Åland Islands[127]. Moreover, the provision providing for the threshold of EUR 5 below which duties and taxes on imports are not collected, would not be applied to such imports. The purpose of the proposed change in VAT legislation is to prevent the circulation of newspapers and magazines via the Åland Islands The new rules are applicable as from 1 January 2015[128].

5.3.3 Switzerland and Gibraltar

Previous case studies examined above have focused on the destination of goods that benefit from LVCR. This section briefly discusses some locations from which these goods originate.

As discussed earlier, benefits from exploiting the LVCR accrue when goods within a certain threshold – up to EUR 22, depending on country legislation – are imported from territory outside the EU. Switzerland and Gibraltar are both outside the scope of EC VAT and physically close to EU member states, and so are likely to be attractive to companies keen to take advantage of the LVCR.

Moreover, both Switzerland and Gibraltar have high quality infrastructure and modern and efficient postal systems reducing the cost of establishing and operating a fulfilment business.

Research suggests that Switzerland is a key fulfilment location for countries like Germany and Denmark while Gibraltar is also a fulfilment centre for the United Kingdom and Germany for the purposes of LVCR linked trade. For example, the Danish

[125] In November 2011, the Finnish Parliament voted to increase the VAT rate on newspaper and magazine subscriptions from the zero rate to the reduced VAT rate of 9 per cent. The new 9 per cent VAT rate came into effect on the 1st of January 2012.
[126] http://www.Ålandpost.com/vat-free/simple-numerical-example-shipping-uk
[127] http://www.ey.com/Publication/vwLUAssets/EY-vat-newsletter-Issue-6-2014/$FILE/EY-VAT-newsletter-Issue-6-2014.pdf
[128] http://vatresource.com/en/News/News-Items/Finland---Sales-of-newspapers-and-magazines-via-Åland-Islands-subject-to-VAT.html

Graphics Association identified Switzerland as a source of magazines into Denmark. To put this in context, total imports of all goods into Denmark from outside the EU increased by about 5% in the ten year period to 2013 while magazine imports in the same period increased by over 300%. More than two-thirds of these magazine imports originated from Switzerland.

Furthermore, information from RAVAS suggests that imports in these locations have been boosted by the closure of the LVCR loophole in the Channel Islands. They argue that the decision of the UK treasury regarding the LVCR has led to a displacement of these fulfilment operations from the Channel Islands to other non-EU territories such as Switzerland and Gibraltar.

5.3.4 VAT evasion underpinned by LVCR

The research undertaken for this study has also identified a number of anecdotal examples of potential VAT evasion, with corresponding competitive distortion, arising as a result of the LVCR.

For example, according to a newspaper report[129], a number of Chinese firms are fulfilling online orders of goods from UK-based warehouses, while the companies who process the payments have addresses based outside the United Kingdom, and so avoid paying the applicable VAT to gain a significant competitive advantage over local businesses.

Further anecdotal examples include, where individuals seeking to take advantage of lower prices for goods in the US, shop online and then post the items back as a C2C consignment. There are a number of websites and companies that allow consumers from the EU to set up US postal addresses. The goods are then delivered to the consumer, with the responsibility to pay the appropriate taxes left with the EU-based consumer. This is with a view to benefit from the higher VAT and/or customs duties exemption thresholds applicable to such consignments.

[129] *http://www.mirror.co.uk/news/world-news/vat-evading-chinese-firms-wiping-4657621*

6. Conclusion

The LVCR is an exemption which grants relief from VAT to imported consignments if they fall below a value threshold which varies between EUR 10 and EUR 22 for individual Member States.

Information on the volume and value of goods that would benefit from the LVCR does not appear to be collated on a consistent and reliable basis, and therefore in this report, an estimate of the volume of such goods has been undertaken using data provided by the UPU, designated postal operators, postal regulators, private postal regulators and review of available literature. This is the first attempt at such an exercise for all EU-28 Member States.

This analysis suggests that volume of such goods has grown substantially in the period 1999 – 2013. For example, the base case volumes are estimated to have grown from approximately 30 million in 1999 to reach approximately 115 million in 2013, a total increase of 286%. This growth in postal volumes is in line with the increase of individuals shopping online in the EU.

The corresponding VAT foregone grew from EUR approximately 118 million in 1999 to approximately EUR 535 million in 2013, an increase of 355%. This significant increase in the value of VAT foregone as a consequence of LVCR should be seen in the context of an increase of EU GDP of just 50% over the same period. Based on various assumptions, the VAT foregone could have reached a maximum in 2011 of approximately EUR 900 million.

This substantial growth in volumes of small consignments sent from outside the EU, and the associated VAT foregone demonstrate that the LVCR has caused a competitive distortion in which trade from outside the EU is given a fiscal advantage. It further results in an economic incentive to businesses to relocate their operations or supply chains outside the EU to benefit from VAT savings at the detriment of businesses located or operating exclusively within the EU.

In addition to the quantitative analysis, we contacted a number of industry organisations across the EU to understand their views on how their members have been impacted by the LVCR. A number of respondents commented that the LVCR is being abused within the EU such that the advantage gained from its exploitation is stifling competition and leading to business closures and business relocations. They argue that if this exploitation is allowed to continue competitive distortions will remain.

In order to validate these arguments, separate analysis has been undertaken regarding the trade patterns of some EU countries, industry case studies and the price elasticity of a select number of goods.

Analysis was undertaken on the change in trade patterns for EU Member States for the relevant goods. This analysis highlighted a number of potential distortions of competition including:

- Growth of imports of certain goods in some but not all EU countries that fall under the remit of the LVCR outstrips other imports from outside the EU for example Denmark;
- The growth rate of import of LVCR related goods substantially outstripping the growth in domestic consumption, which suggests that there is a supply substitution effect (e.g. United Kingdom and Slovenia);
- LVCR related legislation or court rulings have had a dramatic effect on trade patterns, in some cases spelling the end of an entire fulfilment industry, and in other cases creating an unprecedented boom. For example, the UK Treasury decision in 2011 shrank the CD and DVD imports from the Channel Islands to the United Kingdom by over 95%; and
- Further investigation of abuse of the LVCR in the Channel Islands, and the role of the Åland Islands in the magazine industries of Finland and Denmark, highlight competitive distortions, that can be directly attributable to the LVCR.

As a consequence of data challenges, price elasticity analysis could not be undertaken on domestic consumption of the relevant small consignment product categories. Therefore a literature review was undertaken to understand the price sensitivity of consumers to these products. The results of this analysis (please refer to Annex N) suggest that the goods likely to benefit from the LVCR are relatively price inelastic. However, given the limitations of the approach, it is not possible to draw definitive conclusions. Further, inelastic demand in respect of price does not *per se* rule out a competitive distortion impact because even a small shift in consumer behaviour can impact location decisions, and provide a competitive advantage to businesses locating outside the EU to avoid the LVCR. In particular as the goods in question are on average valued at approximately EUR 20, a price differential equal to VAT (e.g. 20 – 25%) could have a significant effect on purchasing decisions made by consumers.

In conclusion, based on the available information, there is evidence to demonstrate competitive distortions resulting from the LVCR. The impacts of such distortions include the considerable loss of VAT revenues to Member States as well as reports of business closures, business relocations and booming fulfilment industries outside the EU.

Annexes

Annex A - Translation into English of the implementation of the VAT relief for imported goods of negligible value in the national legislation[130]

AT	*Any consignment of goods not exceeding EUR 22 in value is exempted from VAT.*
BE	*A relief from VAT shall be granted on the final importation of goods with a global value not exceeding EUR 22.*
BG	*The import of goods within the limits of the permitted duty – free import, is exempted from taxation where:* *1. the total value of the goods imported does not exceed 30 BGN (~EUR 15.34[131])*
CY	*No VAT is due on the importation into Cyprus of goods whose total value does not exceed EUR 17.*
CZ	*VAT exemption is granted to:* *The importation of goods, the value of which does not exceed EUR 22*
DE	*The import VAT exemption of goods of negligible value within the meaning of Article 27 of Regulation (EEC) No 918/83 is limited to products whose total value does not exceed EUR 22 per consignment.*
DK	*Imports of goods from places outside the EU are exempt when its total value of commercial shipments does not exceed DKK 80(~EUR 10.75[132]).*
EE	*Value added tax shall not be imposed on the import of commercial consignments with a value of up to EUR 22*
EL	*Importation of goods of a total value up to EUR 22 should be exempted from VAT.*
ES	*The importation of goods where the full value does not exceed EUR 22 shall be exempted from VAT.*
FI	*Goods with a total value of maximum EUR 22 shall be VAT exempt.*
FR	*Any consignment of goods with a value not exceeding EUR 22, excluding goods which have been imported on mail order.*
HR	*Import on non-commercial goods in small consignments, sent as mail or package with value below 160 HRK (~EUR 20.85[133]) is exempt from VAT.[134]*
HU	*Exemption shall be granted on the importation of goods specified in Title II, Chapter V of the Customs Relief Regulation, the total value of which does not exceed EUR 22.*
IE	*Tax shall not be charged on the importation of goods not exceeding a total value of EUR 22 which do not form part of grouped consignments from the same consignor to the same consignee.*
IT	*The relief is subject to the conditions and formalities determined by the EU Regulations and Directives. Goods whose intrinsic value does not exceed a total of EUR 22 per consignment are admitted to duty relief.*
LT	*The following shall be exempt from import VAT: goods the total value whereof does not exceed LTL 75 (~EUR 21.72[135]).*

[130] The potential exclusion of products is covered in the text under the specific heading.
[131] Currency rate 1st January 2015: 1 EUR = 1.9558 BGN
[132] Currency rate 1st January 2015: 1 EUR = 7.4434 DKK
[133] Currency rate 1st January 2015: 1 EUR = 7.6713 HRK
[134] Although the legislation is worded in a way that only non-commercial goods should benefit from the exemption, our colleagues indicate that in practice all consignments of value below HRK 160 (~EUR 20.85) are exempt from VAT.
[135] Currency rate 1st January 2015: 1 EUR = 3.4528 LTL

LU	*The imports of goods, other than the ones mentioned in article 24 of the Regulation no. 1186 / 2009, for which the global value does not exceed EUR 22, are VAT exempt.*
LV	*Sent goods for commercial purposes are tax exempt if their value does not exceed EUR 22.*
MT	*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.* *"Goods of negligible value" means goods the intrinsic value of which does not exceed a total of the equivalence of EUR 22, per consignment.*
NL	*Regarding VAT, Article 23 of Regulation 1186/2009 is applicable, taking into account that "goods of negligible value" means goods with an intrinsic value of less than EUR 22 per consignment.*
PL	*The import of goods in parcels dispatched from the territory of a third country directly to a recipient staying in the territory of the country is exempt from the tax, provided that a total value of goods in the parcel does not exceed the PLN equivalent of EUR 22.*
PT	*Notwithstanding the provisions of the following paragraph, imports of goods that are part of consignments whose total value do not exceed EUR 22 are exempt from VAT.* *When the value of goods contained in a consignment exceed the amount mentioned in the preceding paragraph, the VAT is not applicable where the amount to be collected is less than or equal to EUR 10.*
RO	*Imports of goods having a value lower than EUR 10 are VAT exempt.*
SE	*Relief of VAT at import should be granted for mail order importation of foreign periodical publications to a value not exceeding EUR 22 and other consignments which are not mail orders, according to Article. 2.3.6. Act of relief of taxes upon importation (1994:1551).*
SI	*The consignments of insignificant value sent directly from abroad are exempt from VAT. The total value of goods in an individual consignments deemed to be insignificant shall not exceed the amount determined by the minister responsible for finance.*[136]
SK	*Goods placed into free circulation with exemption from customs duty according to EU Regulation No 918/83 is exempted from VAT if the imported goods are consignments of value not exceeding EUR 22.*
United Kingdom	*Imported good not exceeding GBP15 (~EUR 19.23*[137]*) in value shall be relieved from VAT taxes.*

[136] *According to the Slovenian VAT Act - Rules on the conditions and methods of exemption, the amount is determined to EUR 22.*
[137] *Currency rate 1st January 2015: 1 EUR = 0.7800 GBP*

Annex B - Threshold for VAT exemption on imported goods of negligible value and method of value determination per country[138]

Country	Currency	Threshold in local currency	Value determination method according practical application	Value determination method according Member States Administrations
Austria	EUR	22	Taxable value	Taxable value
Belgium	EUR	22	Intrinsic value	Intrinsic value
Bulgaria	*BGN*[139]	*30 (~EUR 15.34)*	Intrinsic value	Taxable value
Croatia	*HRK*[140]	*160 (~EUR 20.85)*	Taxable value	Taxable value
Cyprus	EUR	17	Taxable value	Taxable value
Czech Republic	EUR	22	Intrinsic value	Taxable value[141]
Denmark	*DKK*[142]	*80 (~EUR 10.75)*	Intrinsic value	Intrinsic value
Estonia	EUR	22	Intrinsic value	Intrinsic value
Finland	EUR	22	Taxable value	Intrinsic value
France	EUR	22	Taxable value[143]	Taxable value
Germany	EUR	22	Intrinsic value	Intrinsic value
Greece	EUR	22	Taxable value	Taxable value
Hungary	*HUF*[144]	*6000 (~EUR 18.82)*	Taxable value	Taxable value
Ireland	EUR	22	Taxable value	Taxable value
Italy	EUR	22	Intrinsic value	Intrinsic value
Latvia	EUR	22	Taxable value	Taxable value
Lithuania	*LTL*[145]	*75 (~EUR 21.72)*	Intrinsic value	Intrinsic value
Luxemburg	EUR	22	Intrinsic value	Taxable value
Malta	EUR	22	Taxable value	Intrinsic value
The Netherlands	EUR	22	Intrinsic value	Intrinsic value
Poland	EUR	22	Taxable value	Intrinsic value
Portugal	EUR	22	Taxable value	Taxable value
Romania	EUR	10	Taxable value	Intrinsic value
Spain	EUR	22	Taxable value	Taxable value
Slovakia	EUR	22	Taxable value	Taxable value
Slovenia	EUR	22	Taxable value	Taxable value
Sweden	*SEK*[146]	*300 – EUR 22*	Taxable value	Intrinsic value
United Kingdom	*GBP*[147]	*15 (~EUR 19.23)*	Taxable value	Intrinsic value

[138] For the purpose of this study the following definitions are applied:
- *Intrinsic value: the intrinsic product price excluding other costs;*
- *Taxable value: the product price including transport, packing and insurance costs.*

[139] Currency rate 1st January 2015: 1 EUR = 1.9558 BGN

[140] Currency rate 1st January 2015: 1 EUR = 7.6713 HRK
[141] For the case of Czech Republic, this also includes the handling cost.
[142] Currency rate 1st January 2015: 1 EUR = 7.4434 DKK
[143] For the case of France, this also includes the handling cost
[144] Currency rate 1st January 2015: 1 EUR = 318.75 HUF
[145] Currency rate 1st January 2015: 1 EUR = 3.4528 LTL
[146] In addition to 300 Swedish Krona, the national legislation in Sweden explicitly mentions EUR 22.
[147] Currency rate 1st January 2015: 1 EUR = 0,7800 GBP

Country	Currency	Threshold in local currency	Value determination method according practical application	Value determination method according Member States Administrations
Norway	NOK[148]	350 (~EUR 38.71)	Intrinsic value	
Switzerland[149]	CHF[150]	62.5 (~EUR 51.99) based on 8% VAT	n/a	
United States[151]	USD	n/a	n/a	

[148] Currency rate 1st January 2015: 1 EUR = 9.0420 NOK
[149] In Switzerland, the threshold is not based on the value of the goods but on the amount of VAT due. Goods of negligible value are exempt from import VAT if the VAT due does not exceed the amount of 5 CHF (62.5 CHF x 8% VAT) per customs declaration (~EUR 4.07).
[150] Currency rate 1st January 2015: 1 EUR = 1.2022 CHF
[151] The United States does not levy VAT/GST on imported goods. However, individual states may assess sales or use tax.

Annex C - Translation into English of the implementation of the VAT relief for imported goods of a non-commercial character in the national legislation.[152]

AT	*Free are consignments of goods of a private person from a third country to another private person in the customs territory of the Community up to a total value of EUR 45*
BE	*Goods in small consignments of a non-commercial character sent from a third country by private persons to other private persons in a Member State shall be exempt on importation from turnover tax and excise duty.* *For the purposes of paragraph 1, 'small consignments of a non-commercial character' shall mean consignments which:* *(a) are of an occasional nature;* *(b) contain only goods intended for the personal or family use of the consignees, the nature and quantity of which do not indicate that they are being imported for any commercial purpose;* *(c) contain goods with a total value not exceeding EUR 45;* *(d) are sent by the sender to the consignee without payment of any kind.*
BG	*The import of goods within the limits of the permitted duty – free import, is exempted from taxation where:* *small deliveries of goods of non-commercial nature are received, sent from a third country by a natural person to another natural person in the country, without the latter paying for them, provided the total value does not exceed the BGN equivalence of EUR 45*
CY	*When personal goods are imported into Cyprus due to the transfer of the place of residence of the individual from a third country, then no VAT should be paid on the importation.* *In addition, this relief of VAT should be granted in case of marriage of the person in Cyprus and in the case of wedding gifts.* *Furthermore, relief of VAT is given in the case where goods are given as gifts in token of friendship or goodwill by public bodies, authorities or groups carrying on an activity in the public interest.*
CZ	*The importation of goods in consignments of non-commercial character (gifts) is VAT exempt when the exemption from import duty based on the directly applicable law of the European Union (reference to COUNCIL REGULATION (EC) No. 1186/2009) is granted.*
DE	*Goods in small consignments of a non-commercial character sent from outside the customs territory of the community, excluding the isle Helgoland, by private persons to other private persons in a Member State shall be exempt on importation from turnover tax and excise duty.* *Small consignments of a non-commercial character' shall mean consignments which, are of an occasional nature, contain only goods intended for the personal or family use of the consignees, the nature and quantity of which do not indicate that they are being imported for any commercial purpose, contain goods with a total value not exceeding EUR*

[152] *The potential exclusion of products if covered in the text of the Draft Interim Report under the specific heading.*

	45, are sent by the sender to the consignee without payment of any kind.
DK	*Tax exemption is granted to goods which are sent from a private person outside the EU to a person in this country in a small consignment of non-commercial character, when the supply* *a) takes place occasionally,* *b) contains only goods intended for the recipient or his family's personal use or consumption and not by their nature or quantity, may give rise to doubt that they are intended for non-commercial purposes,* *c) consists of products whose total value does not exceed DKK 360, cf. paragraph 2, and* *d) is sent to the consignee without payment of any kind.* *If a shipment contains goods of a value exceeding DKK 360, the shipment in its entirety is excluded from the tax exemption.*
EE	*Value added tax shall not be imposed on the import of a consignment not exceeding EUR 45 per consignment sent from a natural person to another natural person.*
EL	*Low value consignments of non-commercial nature, dispatched by foreign private persons to private persons in Greece shall be exempted from taxes, VAT, duties or other contributions imposed upon importation. In order for a consignment to be regarded as of a low value and of non-commercial nature, the following conditions should be cumulatively met:* *a) They should be of an occasional nature;* *b) They should be intended for private or family use by the recipients and due to their nature, they may not raise doubts as to their non-commercial nature* *c) They are dispatched to the recipients free-of-charge* *d) Their total value does not exceed the amount of 30 ECU (currently EUR 45)*
ES	*Goods in small consignments from third countries, not constituting a commercial consignment and are sent by a private individual with destination to another private individual located in the territory of application of the tax, shall be exempt from VAT.* *For these purposes, small consignments of non-commercial nature shall be considered those in which the following requirements apply:* *a) That they are imported on an occasion basis.* *b) That they cover exclusively personal property of use by the recipient or his family and that, due to their nature and quantity, its involvement may not be considered as an entrepreneurial or professional activity.* *c) That they are dispatched by the sender free of charge.* *d) That the full value of the goods imported does not exceed EUR 45.*
FI	*Goods sent as a gift, or goods (other than alcoholic beverages or tobacco products) sent on an occasional basis without any payment that are over EUR 45 in value are liable to import VAT.*
FR	*Goods sent between private persons, not exceeding EUR 45 in value are VAT exempt.*

HR[153]	*Import of goods in consignments which are sent by physical persons from third countries to physical persons in Croatia are exempt from VAT at import, provided they are of non-commercial nature.*
HU	*Exemption shall be granted, in due consideration of the conditions mentioned in Paragraph b) of Subsection (1) of Section 93 under the conditions laid down in and apart from the importation of goods specified in Title II, Chapter VI of the Customs Relief Regulation 1186/2009/EC.*
IE	*Goods in small consignments of a non-commercial character sent from a third country by private persons to other private persons in the State shall (subject to specific exclusions) be exempt on importation from value-added tax and excise duty.* *Small consignments of a non-commercial character means consignments which –* *a) are of an occasional nature;* *b) contain only goods intended for the person or family use of the consignees, the nature and quantity of which do not indicate that they are being imported for any commercial purpose;* *c) contain goods with a total value not exceeding EUR 45; and* *d) are sent by the sender to the consignee without payment of any kind.*
IT	*Goods contained in consignments sent from a third country by a private individual to another private individual living in the customs territory of the Community shall be admitted free of import duties, provided that such importations are not of a commercial nature. Imported consignments are not of a commercial nature if:* *a) they are of an occasional nature;* *b) they contain goods exclusively for the personal use of the consignee or his family, which do not reflect any commercial intent by their nature or quantity;* *c) the consignment value don't exceed the value of EUR 45;* *d) they are sent to the consignee by the consignor free of payment of any kind.*
LT	*Import VAT shall not be chargeable on goods sent in non-commercial consignments of negligible value (packages with documents, postal packages or postal parcels). A consignment shall be considered of negligible value if the total value thereof is less than LTL 160. A consignment shall be treated as non-commercial if all the conditions listed below are satisfied:* *a) the receiver of the consignment is a natural person;* *b) the items of property contained in the consignment are clearly intended for personal needs, i.e. neither the quantity of goods nor their character gives grounds to presume that the items of property are intended for economic activities;* *c) the receiver of the consignment receives it from the sender free of charge;* *d) the consignment contains no goods subject to excise duty under the Law of the Republic of Lithuania on Excise Duties;*
LU	*The imports of goods for small value from a private person to another private person are exempt from VAT provided that:* *a) the global value per each delivery / consignment does not exceed EUR 45;* *b) the quantitative thresholds mentioned under article 27 of Regulation*

153 Please note that the Croatian VAT legislation does not prescribe the threshold (in EUR or HRK) up to which non-commercial consignments are VAT exempt. However, our Croatian office indicates that an equivalent of EUR 45 in HRK is applied.

	no. 1186 / 2009 are fulfilled.
LV	*Goods sent as a gift, or goods (other than alcoholic beverages or tobacco products) sent on an occasional basis without any payment that are over EUR 45 in value are liable to import VAT.*
MT	*Goods contained in consignments sent from a third country by a private individual to another private individual living in the customs territory of the Community shall be admitted free of import duties, provided that such importations are not of a commercial nature.* *Imported consignments are "not of a commercial nature" if they:* *a) are of an occasional nature,* *b) contain goods exclusively for the personal use of the consignee or his family, which do not by their nature or quantity reflect any commercial intent,* *c) are sent to the consignee by the consignor free of payment of any kind.* *The value of the gift must not exceed EUR 45.*
NL	*An exemption is granted for the import of goods if this import does not have a commercial character and these goods do not exceed EUR 45.*
PL	*The import of goods in a parcel dispatched the territory of a third country by a natural person and intended for a natural person staying in the territory of the country is exempt from the tax if the following conditions are jointly satisfied:* *a) the quantity and type of goods do not indicate the commercial purpose thereof;* *b) the recipient is not obliged to pay fees for the sender in connection with the receipt of the parcel;* *c) parcels are of occasional character.* *The exemptions referred to in paragraph 1 apply if a value of a parcel does not exceed the zloty equivalent of EUR 45.*
PT	*Goods which are part of small consignments of a non-commercial character, sent from a third country by an individual to another individual who is in the national territory are exempt from import VAT and excise duties.* *For the purposes of the preceding paragraph, the term 'small consignments of a non-commercial character" should be considered as consignments which fulfil simultaneously the following requirements:* *a) are occasionally;* *b) contain goods exclusively for the personal or family use of their recipients and these goods should not translate, whether by their nature or quantity, any commercial intent;* *c) contain goods which total value does not exceed EUR 45;* *d) are sent by the consignor to the consignee without payment of any kind*
RO	*Goods included in small lots having a non-commercial character, sent by private persons from a third country to private persons in Romania are exempt from VAT and excise duties.* *Small lots having a non-commercial character are defined as follows:* *a) have an occasional character;* *b) contain only goods destined for the personal use of the beneficiary or the beneficiary's family and their nature and quantity are not indicative that they may be imported for commercial purpose;* *c) contain goods having a cumulated value up to EUR 45;*

	d) are sent to the beneficiary free of charge.
SE	*Relief from VAT upon importation shall be granted for consignments from a private person to another private person, except if the consignment consists of alcoholic beverages or tobacco products or has a value exceeding EUR 45.*
SI	*the relief for imported goods of a non-commercial character applies to non-commercial goods in consignments which are sent by a natural person residing abroad free of charge to a natural person on the customs territory up to the amount laid down by the minister responsible for finance.* *In order to qualify for this relief, it should meet the following criteria:* *a) the consignment is occasional.* *b) contains goods exclusively for the personal use of the recipient or his family members; the nature and quantity of goods indicate, that this is not a consignment for commercial purposes.* *c) total value of the goods in the consignment does not exceed EUR 45.* *d) the goods are sent to the recipient free of charge.*
SK	*Goods placed into free circulation with exemption from customs duty according to EU Regulation No 918/83 is exempted from VAT if the imported goods are small consignments of goods of a non-commercial character.*
United Kingdom	*Goods (other than alcoholic beverages or tobacco products) sent on an occasional basis* *as gifts in token of friendship or goodwill between bodies, public authorities or groups carrying on an activity in the public interest.* *Goods sent as a gift that are over GBP 36 in value are liable to import VAT*

Annex D - Quantitative restrictions per product under the application of the relief for imported goods of a non-commercial character per EU Member State

	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES
Tobacco products							Full exclusion			
- cigarettes	50	50	50	50	50	50		50	50	50
- cigarillos[154]	25	25	25	25	25	25		25	25	25
- cigars	10	10	10	10	10	10		10	10	10
- smoking tobacco	50 g	50 g	50 g	50 g	50 g	50 g		50 g	50 g	50 g
Alcohol and alcoholic beverages							Full exclusion			
- distilled beverages and spirits of an alcoholic strength exceeding 22 % vol.	1 l	1 l	1 l	1 l	1 l	1 l		1 l	1 l	1 l
- distilled beverages and spirits, and aperitifs with a wine or alcohol base, tafia, saké or similar beverages of an alcoholic strength of 22 % vol. or less; sparkling wines, fortified wines	1 l	1 l	1 l	1 l	1 l	1 l		1 l	1 l	1 l
- still wines	2 l	2 l	2 l	2 l	2 l	2 l		2 l	2 l	2 l
Perfumes	50 g	50 g	50 g	50 g	50 g	50 g	Full exclusion	50 g	50 g	50 g
Toilet waters	0,25 l	0,25 l	0,25 l	0,25 l	0,25 l	0,25 l	Full exclusion	0,25 l	0,25 l	0,25 l
Coffee	n/a	500 g	n/a	500 g	500 g	500 g	n/a	500 g	n/a	500 g
Coffee extracts and essences	n/a	200 g	n/a	200 g	200 g	200 g	n/a	200 g	n/a	200 g
Tea	n/a	100 g	n/a	n/a	100 g	n/a	n/a	100 g	n/a	100 g
Tea extracts and essences	n/a	40 g	n/a	n/a	40 g	n/a	n/a	40 g	n/a	40 g
Other products not defined by Art. 2 of Directive 2006/79/EC	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

[154] *Cigars of a maximum weight of three grams each*

	FI	FR	HR	HU	IE	IT	LT	LU	LV
Tobacco products	Full exclusion				Full exclusion		Full exclusion		
- cigarettes		50	200	50		50		50	50
- cigarillos		25	100	25		25		25	25
- cigars		10	50	10		10		10	10
- smoking tobacco		50 g	250 g	50 g		50 g		50 g	50 g
Alcohol and alcoholic beverages	Full exclusion				Full exclusion		Full exclusion		
- distilled beverages and spirits of an alcoholic strength exceeding 22 % vol.		1 l	1 l	1 l		1 l		1 l	1 l
- distilled beverages and spirits, and aperitifs with a wine or alcohol base, tafia, saké or similar beverages of an alcoholic strength of 22 % vol. or less; sparkling wines, fortified wines		1 l	2 l	1 l		1 l		1 l	1 l
- still wines		2 l	4 l	2 l		2 l		2 l	2 l
Perfumes	50 g	50 g	n/a	50 g	Full exclusion	50 g	Full exclusion	50 g	50 g
Toilet waters	0,25 l	0,25 l	n/a	0,25 l	Full exclusion	0,25 l	Full exclusion	0,25 l	0,25 l
Coffee	500 g	n/a	n/a	500 g	500 g	n/a	500 g	n/a	n/a
Coffee extracts and essences	200 g	n/a	n/a	200 g	200 g	n/a	200 g	n/a	n/a
Tea	100 g	n/a	n/a	100 g	100 g	n/a	100 g	n/a	n/a
Tea extracts and essences	40 g	n/a	n/a	40 g	40 g	n/a	40 g	n/a	n/a
Other products not defined by Art. 2 of Directive 2006/79/EC			Beer 16 l						

	MT	NL	PL	PT	RO	SE	SI	SK	UK
Tobacco products									
- cigarettes	50	50	50	50	50	50	50	50	50
- cigarillos	25	25	25	25	25	25	25	25	25
- cigars	10	10	10	10	10	10	10	10	10
- smoking tobacco	50 g	50 g	50 g	50 g	50 g	50 g	50 g	50 g	50 g
Alcohol and alcoholic beverages									
- distilled beverages and spirits of an alcoholic strength exceeding 22 % vol.	1 l	1 l	1 l	1 l	1 l	1 l	1 l	1 l	1 l
- distilled beverages and spirits, and aperitifs with a wine or alcohol base, tafia, saké or similar beverages of an alcoholic strength of 22 % vol. or less; sparkling wines, fortified wines	1 l	1 l	1 l	1 l	1 l	1 l	1 l	1 l	1 l
- still wines	2 l	2 l	2 l	2 l	2 l	2 l	2 l	2 l	2 l
Perfumes	50 g	50 g	50 g	50 g	50 g	50 g	50 g	50 g	50 g
Toilet waters	0,25 l	0,25 l	0,25 l	0,25 l	0,25 l	0,25 l	0,25 l	0,25 l	0,25 l
Coffee	n/a	500 g	500 g	500 g	500 g	n/a	500 g	500 g	n/a
Coffee extracts and essences	n/a	200 g	200 g	200 g	200 g	n/a	200 g	200 g	n/a
Tea	n/a	100 g	100 g	100 g	100 g	n/a	100 g	100 g	n/a
Tea extracts and essences	n/a	40 g	40 g	40 g	40 g	n/a	40 g	40 g	n/a
Other products not defined by Art. 2 of Directive 2006/79/EC									

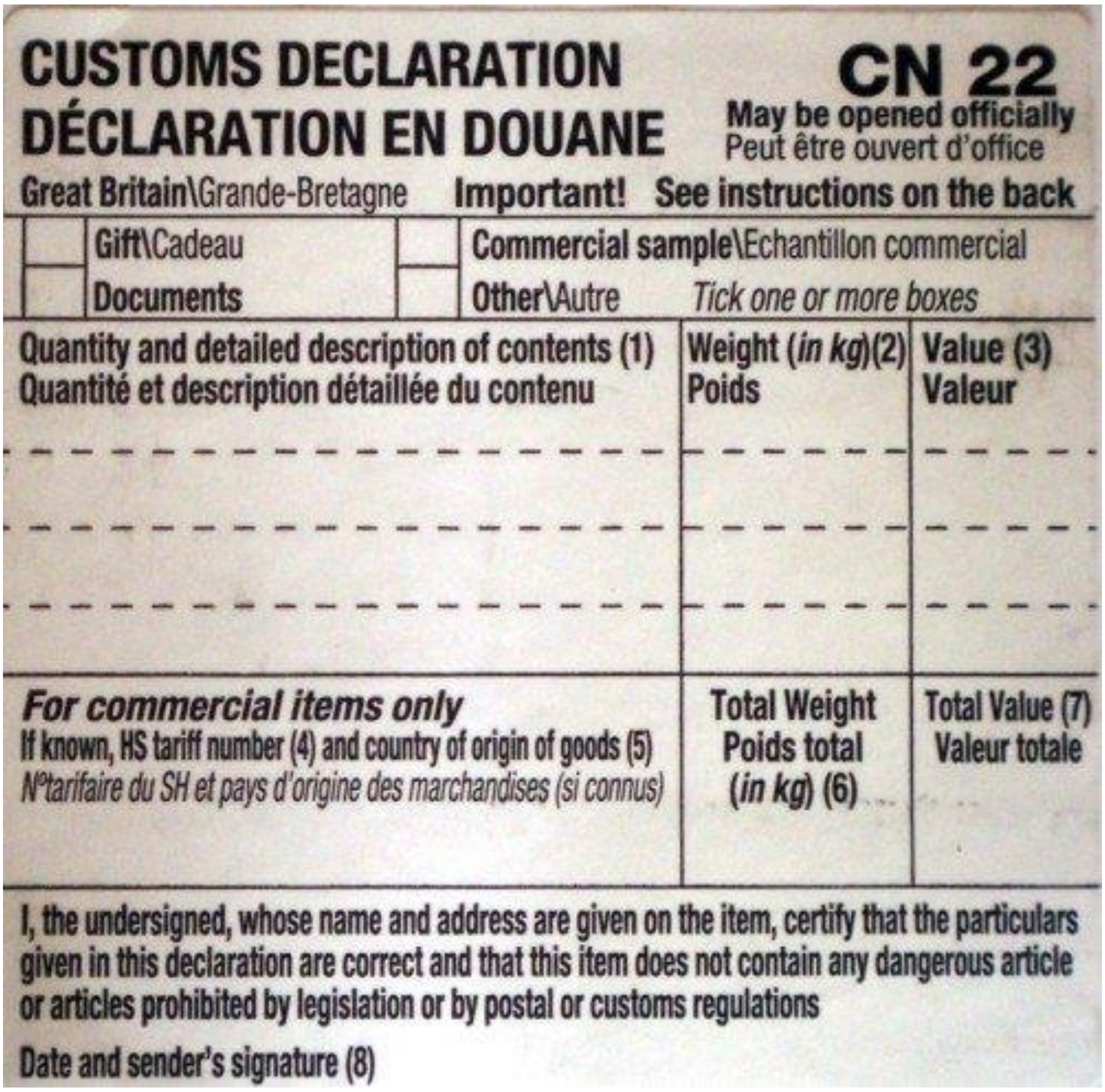
Annex E – Customs clearance procedures based on input from EY offices and confirmed by competent authorities[155]

	Below EUR 10-22	Above EUR 10-22, but below EUR 150	Above EUR 150
Austria	SAD: electronic customs declaration (e-zoll)	SAD: electronic customs declaration (e-zoll)	SAD: electronic customs declaration (e-zoll)
Belgium	Verbal declaration	SAD: electronic customs declaration (PLDA)	SAD: electronic customs declaration (PLDA)
Bulgaria	SAD	SAD	SAD
Croatia	Act of crossing the frontier	SAD: electronic customs declaration	SAD: electronic customs declaration
Cyprus	SAD: electronic customs declaration (THESEAS)	SAD: electronic customs declaration (THESEAS)	SAD: electronic customs declaration (THESEAS)
Czech Republic	Verbal declaration	SAD	SAD
Denmark	SAD: electronic customs declaration (Toldsystemet)	SAD: electronic customs declaration (Toldsystemet)	SAD: electronic customs declaration (Toldsystemet)
Estonia	Verbal declaration	SAD	SAD
Finland	SAD	SAD	SAD
France	SAD: electronic customs declaration (DELTA)	SAD: electronic customs declaration (DELTA)	SAD: electronic customs declaration (DELTA)
Germany	Act of crossing the frontier	SAD: electronic customs declaration (ATLAS)	SAD: electronic customs declaration (ATLAS)
Greece	SAD: electronic customs declaration	SAD: electronic customs declaration	SAD: electronic customs declaration
Hungary	SAD	SAD	SAD
Ireland	SAD: electronic customs declaration (AEP)	SAD: electronic customs declaration (AEP)	SAD: electronic customs declaration (AEP)
Italy	Verbal declaration (subject to prior authorisation)	SAD	SAD
Latvia	SAD	SAD	SAD
Lithuania	SAD	SAD	SAD
Luxemburg	Act of crossing the frontier	SAD	SAD
Malta	SAD	SAD	SAD
The Netherlands	SAD: electronic customs declaration (SAGITTA)	SAD: electronic customs declaration (SAGITTA)	SAD: electronic customs declaration (SAGITTA)
Poland	SAD	SAD	SAD
Portugal	Verbal or Mail Traffic Customs Declaration	Verbal or Mail Traffic Customs Declaration	Verbal or Mail Traffic Customs Declaration
Romania	SAD	SAD	SAD
Spain	SAD	SAD	SAD

[155] This confirmation relates solely to the customs authorities in the 8 selected Member States: Belgium, Czech Republic, Denmark, France, Germany, the Netherlands, Spain and the United Kingdom.

Slovakia	Verbal declaration	SAD	SAD
Slovenia	Act of crossing the frontier	SAD	SAD
Sweden	SAD	SAD	SAD
United Kingdom	SAD: electronic customs declaration	SAD: electronic customs declaration	SAD: electronic customs declaration

Annex F – Example CN 22 form



CUSTOMS DECLARATION
DÉCLARATION EN DOUANE

CN 22
May be opened officially
Peut être ouvert d'office

Great Britain\Grande-Bretagne **Important! See instructions on the back**

☐	**Gift**\Cadeau	☐	**Commercial sample**\Echantillon commercial
☐	**Documents**	☐	**Other**\Autre *Tick one or more boxes*

Quantity and detailed description of contents (1) **Quantité et description détaillée du contenu**	**Weight (*in kg*)(2)** **Poids**	**Value (3)** **Valeur**
For commercial items only **If known, HS tariff number (4) and country of origin of goods (5)** *N°tarifaire du SH et pays d'origine des marchandises (si connus)*	**Total Weight** **Poids total** **(*in kg*) (6)**	**Total Value (7)** **Valeur totale**

I, the undersigned, whose name and address are given on the item, certify that the particulars given in this declaration are correct and that this item does not contain any dangerous article or articles prohibited by legislation or by postal or customs regulations

Date and sender's signature (8)

Annex G – Overview of general simplification schemes with regard to the collection of import VAT

1. Postponed accounting

Beyond the specific case of low value consignments imports, the majority of Member States provide the possibility of postponed accounting referred to in Article 211(2) of VAT Directive. However, only few Member States apply it as a basic rule rather than an exception subject to strict conditions. In postponed accounting, import VAT is declared and paid to the tax authorities in the same way acquisitions of services or goods from foreign suppliers are (i.e. reverse-charge scheme). It must be noted however that this scheme only applies to VAT registered importers.

The Netherlands apply the postponed-accounting system as a general import VAT payment/declaration facilitating measure, upon request of the taxable person (Article 23 license for deferral of import VAT). Taxable persons have the possibility to delay payment of import VAT by applying for permission to use this license. Under this facility, import VAT is reported on the taxable person's VAT return and recovered in the same tax period as input VAT, depending on the taxable person's partial exemption status. The license is granted for an open-ended period but can be withdrawn in case of abuse. A non-established business must appoint a tax representative resident in the Netherlands to use the postponed accounting facilitation.

In Spain, this postponed accounting system has been introduced as from 1 January 2015 for imports and will be applied for the first time in declarations submitted as from February 2015. According to this new legislation, entrepreneurs are allowed to postpone the payment of import VAT, formerly payable within a deadline of 10 days upon the import of goods into the Spanish territory. The entrepreneur has to opt for this special scheme and be liable for the filing of VAT returns on a monthly basis. Once these conditions are fulfilled, both output and input import VAT can be included in the same monthly VAT return. If the entrepreneur benefits from a full input VAT deduction right, there is no cash flow burden and the tax effect remains neutral. Under application of this optional scheme, no payment must be made to the Customs Authorities at the time of entry of the goods.

In Denmark, import VAT is generally declared and paid via the periodic VAT return: the payable tax is calculated by the tax authorities who inform the entrepreneur of the amount due monthly. The entrepreneur then accounts for the import VAT on the periodic VAT return and import VAT can be deducted as input tax in accordance with the general rules in the same VAT return.

In the Czech Republic, the postponed accounting system also applies in case of imports. This is a standard practice for Czech VAT payers to declare/ pay import VAT and claim respective input VAT in regular VAT returns.

In France, the postponed accounting system for the payment of import VAT (via the periodic VAT return) has been introduced in January 2015. Thus, the importers of goods will no longer pay import VAT to the Customs Authorities, but they will be able to declare this VAT amount via their periodic VAT return and they will be able to deduct the VAT via the same return. It is said that this modification should completely neutralize any cash flow effects for the importers in France and are to be considered as an incentive for businesses. However, the reverse charge mechanism for the accounting of the import VAT is limited only to the importer who holds an authorization of single local clearance procedure (in French "Procédure de domiciliation unique" or "PDU") and who cumulatively elects for such mechanism (this regime is not compulsory). In this context it should be noted that currently the importer may postpone the payment of the import VAT in France through a duty deferment (up to 55 days). After this deferment, the importer must pay the import VAT to the French Customs Authorities.

In Sweden, a more or less similar approach as the French case described above was taken by the Swedish Parliament in December 2013. There the Swedish Parliament decided that companies registered for VAT purposes in Sweden must report their VAT on importation to the Tax Agency instead of paying it to Customs (Sw Tullverket). The amendment entered into force on 1 January 2015. This means that as of 1 January 2015, importing companies, which are registered for VAT purposes in Sweden, will report and pay import VAT to the Tax Agency instead of to the Customs. Thus, their import VAT must be included in the regular VAT return.

2. Import VAT payment deferrals (other than postponed-accounting system)

In the United Kingdom, the government allows for a duty deferment. Under the Duty Deferment Scheme the import VAT due is only paid on the 15th of the month following the month of import. In the HMRC policy notice the system is described as "a very effective and efficient way to clear your goods and collect the charges due" [156].

From a general European perspective, it has to be noted that Article 224 of the Community Customs Code foresees a general deferment of customs duties' payment at the importer's request, provided that the applicant is able to present a security. Pursuant to Article 227 of the same Code, the period for which payment is deferred shall be 30 days. For import VAT, for example, Germany exempts entrepreneurs from the obligation to provide a security if import VAT is fully deductible.

[156] *https://www.gov.uk/government/publications/notice-101-deferring-duty-vat-and-other-charges/notice-101-deferring-duty-vat-and-other-charges , 1.4*

Annex H – Assessment of the tax technical information provided by stakeholders on the EY questionnaires[157]

Member State	Stakeholder contacted	Comment
Austria	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes and high level indication of costs involved ▪ Minimum information on the VAT treatment, no information on cost structure
Belgium	▪ EY office ▪ Courier firm ▪ Postal service operator ▪ VAT Administration ▪ Customs Administration	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and high level indication of costs involved ▪ Satisfactory information received from the (national) postal service operator regarding clearance processes, VAT treatment and detailed information on the costs involved ▪ Satisfactory information regarding the VAT treatment, no information on costs structure ▪ High level information regarding clearance processes, no information regarding costs structure
Bulgaria	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes and high level indication of costs involved ▪ Satisfactory information regarding the VAT treatment, no information on the costs involved

[157] *Please note that the assessment of information received is purely based on EY' perception after completion of follow-up rounds, if applicable.*

Member State	Stakeholder contacted	Comment
Croatia	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ No information received ▪ minimum information regarding the VAT treatment, no information on the costs involved
Cyprus	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ No information received ▪ Minimum information regarding the VAT treatment, no information on cost structure
Czech Republic	▪ EY office ▪ Courier firm ▪ VAT Administration ▪ Customs Administration	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and one courier firm providing a high level indication of costs involved ▪ Minimum information regarding the VAT treatment, no information on costs structure ▪ Satisfactory information regarding clearance processes and cost structure
Denmark	▪ EY office ▪ Courier firm ▪ VAT Administration ▪ Customs Administration	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and high level indication of costs involved ▪ Satisfactory information regarding the VAT treatment, no information on costs structure ▪ Satisfactory information regarding clearance processes, no information on costs structures
Estonia	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Information received from one courier firm outlining the clearance processes, no information regarding costs involved ▪ Satisfactory information regarding the VAT treatment, high level information on cost structure

Member State	Stakeholder contacted	Comment
Finland	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes and high level indication of costs involved ▪ Satisfactory information regarding the VAT treatment and on cost structure
France	▪ EY office ▪ Courier firm ▪ VAT Administration ▪ Customs Administration	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from three courier firms outlining the clearance processes and high level indication of costs involved ▪ Satisfactory information regarding the VAT treatment, no information on costs structure ▪ Minimum information regarding clearance processes, no information on costs structures
Germany	▪ EY office ▪ Courier firm ▪ Postal service operator ▪ VAT Administration ▪ Customs Administration	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and one courier firm providing a high level indication of costs involved ▪ No information received ▪ Minimum information regarding the VAT treatment, no information on costs structure ▪ Satisfactory information regarding clearance processes, no information on costs structures
Greece	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes and VAT treatment ▪ No information received ▪ Minimum information regarding the VAT treatment, no information on cost structure

Member State	Stakeholder contacted	Comment
Hungary	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and high level indication of costs involved ▪ Satisfactory information regarding the VAT treatment, no information on cost structure
Ireland	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes and high level indication of costs involved ▪ Minimum information regarding the VAT treatment, no information on cost structure
Italy	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and high level indication of costs involved ▪ Minimum information regarding the VAT treatment, no information on cost structure
Latvia	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes, high level indication on costs involved for consignments with a value above the VAT threshold ▪ Satisfactory information regarding the VAT treatment, high level information on cost structure
Lithuania	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes, no information on costs involved ▪ Minimum information regarding the VAT treatment, high level information on cost structure

Member State	Stakeholder contacted	Comment
Luxembourg	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment, clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes, no information on costs involved ▪ Satisfactory information regarding the VAT treatment and high level information on cost structure
Malta	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Minimum information received from one courier firm outlining the clearance processes, no information on costs involved ▪ Minimum information regarding the VAT treatment, no information on cost structure
Netherlands	▪ EY office ▪ Courier firm ▪ VAT Administration ▪ Customs Administration	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes and high level indication of costs involved ▪ Satisfactory information on the VAT treatment, no information on cost structure ▪ Satisfactory information regarding clearance processes, no information on cost structure
Poland	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and one courier firm providing a high level indication of costs involved ▪ Satisfactory information on the VAT treatment, no information on cost structure
Portugal	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from one courier firm outlining the clearance processes, no information on costs involved ▪ Minimum information regarding the VAT treatment, no information on cost structure

Member State	Stakeholder contacted	Comment
Romania	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Minimum information received from one courier firm outlining the clearance processes, high level indication on costs involved for consignments with a value above the VAT threshold ▪ Minimum information regarding the VAT treatment, no information on cost structure
Slovakia	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Minimum information received from one courier firm outlining the clearance processes, high level indication on costs involved ▪ Satisfactory information regarding the VAT treatment, no information on cost structure
Slovenia	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ No information received ▪ Satisfactory information regarding the VAT treatment, no information on cost structure
Spain	▪ EY office ▪ Courier firm ▪ VAT Administration ▪ Customs Administration	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Satisfactory information received from two courier firms outlining the clearance processes and high level indication of costs involved ▪ Minimum information regarding the VAT treatment, no information on cost structure ▪ Minimum information regarding clearance processes, no information on cost structure
Sweden	▪ EY office ▪ Courier firm ▪ VAT Administration (limited Q)	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees ▪ Minimum information received from one courier firm outlining the clearance processes, high level indication on costs involved ▪ Satisfactory information regarding the VAT treatment, no information on cost structure

Member State	Stakeholder contacted	Comment
United Kingdom	▪ EY office	▪ Satisfactory information regarding clearance processes, VAT treatment and clearance fees
	▪ Courier firm	▪ Satisfactory information received from three courier firms outlining the clearance processes and high level indication of costs involved
	▪ Postal service operator	▪ No information received
	▪ VAT Administration	▪ Satisfactory information regarding the VAT treatment, no information on cost structure
	▪ Customs Administration	▪ Satisfactory information regarding clearance processes, high level information on costs structure

Annex I - Fees charged per Member State for the customs clearance of small consignments

Country	Fee charged by national postal service providers and applicable to consignments with a value below the VAT threshold set for small consignments (i.e. between EUR 10 - 22)	Fee charged by national postal service providers and applicable to consignments with a value above the VAT threshold but below the EUR 150 customs duty threshold	Fees charged by customs agents (e.g. courier firms)	Comments
AT	EUR 0	EUR 0	Not publicly available information	If the goods have to be presented to the customs authorities, the Austrian Mail charges EUR 10.
BE	EUR 0	EUR 12	Not publicly available information	Bpost charges EUR 30 for non-exempted consignments with a value above EUR 150.
BG	EUR 0	BGN 4 (~EUR 2)	Not publicly available information	-
CY	EUR 0	EUR 0	The fees charged may vary between EUR 6 - 50	The postal office charges a storage fee of EUR 3.42
CZ	EUR 0	EUR 3.5	Not publicly available information	Czech Post charges around EUR 26 for the representation in customs proceedings based on the POA principle.
DE	EUR 0	EUR 0	Not publicly available information	-
DK	EUR 0	DKK 160 (~EUR 21.41)	The fees charged may vary between DKK 125-150 (~EUR 16.73 – 20.07)	-
EE[158]	EUR 0	The fees charged may vary between EUR 10 – 20	Not publicly available information	-
EL[159]	EUR 0	EUR 8	Not publicly available information	The ELTA charges an additional fee of EUR 4 in case customs duties are due (customs management fee) and EUR 10 if the recipient requests a revaluation of the assessed customs duties (customs revaluation).

[158] *Usually in addition to all applicable taxes a handling fee is charged which is not fixed. The fees depend on the service provider and the commercial or non-commercial character.*

[159] *As a general rule, the Greece National Telecommunications and Post Committee has clarified that the following charges shall apply:*

- *In case the customs clearance is carried out by the recipient, the charges should include a payment voucher ranging from EUR 0-35, the labour costs of the courier or fast parcel operator and the storage costs.*
- *In case the courier or fast parcel operator undertakes the custom formalities in their capacity as customs agents, the relevant charges should include the labour and storage costs as well as the fee of the customs broker starting from EUR 50 depending on the value of the relevant invoice.*

Country	Fee charged by national postal service providers and applicable to consignments with a value below the VAT threshold set for small consignments (i.e. between EUR 10 - 22)	Fee charged by national postal service providers and applicable to consignments with a value above the VAT threshold but below the EUR 150 customs duty threshold	Fees charged by customs agents (e.g. courier firms)	Comments
ES	EUR 0	EUR 15	Based on information received from several customs agents , these agents do not charge fees when consignments are free from customs duties or import VAT.	-
FI	EUR 0	EUR 19.75	Not publicly available information	-
FR	EUR 0	EUR 15	Not publicly available information	-
HR	Not publicly available information	Not publicly available information	Not publicly available information	-
HU	EUR 0	EUR 0	Not publicly available information	In case of small consignments that are customs cleared by the Hungarian Post Office (i.e. consignments arrived without CN 22/CN 23 forms) a fee of HUF 2 600 (~EUR 8.75) for private individuals and HUF 11 100 (EUR 37.36) for other persons will be charged.
IE	EUR 0	EUR 6	Not publicly available information	-
IT	EUR 0	EUR 5.5	Not publicly available information	Poste Italiane charges EUR 11 for non-exempted consignments with a value above EUR 150.
LT	EUR 0	LTL30 (~EUR 9)	Not publicly available information	Lietuvos Pastas AB charges extra fees for customs representation if the value is above EUR 150[160].
LU	Not publicly available information	Not publicly available information	EUR 19	-
LV	EUR 0	Min. EUR 1.85	Not publicly available information	Latvian Mail indicated that the handling fee depends from weight, size and sender country is minimum EUR 1.85.
MT	EUR 0	EUR 0	Not publicly available information	Maltapost only charges a handling fee of EUR 15 in cases where additional

[160] *The fees for the customs representation by Lietuvos Pastas AB are as follows:*
- *LTL 41.05 (~EUR 12) for the filling of the first page of the SAD and LTL 20.55 (~EUR 6) for the each additional page;*
- *LTL 10.30 (~EUR 3) for the filling of the first page of the customs value declaration and LTL 5.15 (~EUR 1.5) for the each additional page.*

Country	Fee charged by national postal service providers and applicable to consignments with a value below the VAT threshold set for small consignments (i.e. between EUR 10 - 22)	Fee charged by national postal service providers and applicable to consignments with a value above the VAT threshold but below the EUR 150 customs duty threshold	Fees charged by customs agents (e.g. courier firms)	Comments
				input/documentation is required.
NL	EUR 0	EUR 0	>EUR 10.50 or 2.5% of the value of advance payment by the customs agent	For normal consignments the fee charged is EUR 13, for Express Mail Service, the fee amounts to EUR 17.50.
PL	EUR 0	Max. EUR 5	Courier firms charge a EUR 1 clearance fee for consignments of negligible value under the VAT threshold	If the Polish postal operator requires additional input/documentation, an extra fee of EUR 0.6 is charged
PT	EUR 0	EUR 5.40 for "special packets" EUR 6.22 for goods delivered by Express mail service EUR 13.06 for other express or urgent mail services sent from CH.	Not publicly available information	-
RO	EUR 0	RON 2.3 (~EUR 0.51)	Not publicly available information	-
SE	EUR 0	SEK 100 (~EUR 11.29[161]) SEK 175 for legal persons (~EUR 19.75)	Variable fees depending on the customs agent	-
SI	EUR 0	EUR 9.76	Not publicly available information	In case the value on the declaration does not match the value of the consignment, Slovenian Post will charge 3 EUR. Before 1 June 2014, the clearance fee for the clearance of small consignments was EUR 9.76.
SK	EUR 0	EUR 0 for private individuals declaring the goods verbally EUR 10 for entities	Not publicly available information	If applicable, Slovak Postal Service charges EUR 9 for acting on behalf of the declarant.
UK	EUR 0	GBP 8 (~EUR 9.64)	Not publicly available information	-

[161] Currency rate 1st January 2014: 1 EUR = 8.8591 SEK

Annex J – Estimated verification ratio based on practical experience by courier firms and postal services[162]

Country	Estimated ratio of (paper and physical) verification checks performed by the Customs Administration[163]	Ratio of (paper and physical) verification checks indicated by the Customs Administrations questioned
Austria	4,5%	
Belgium[164]	2% - 15%	2 %
Bulgaria	10% - 15%	
Croatia	n/a	
Cyprus	n/a	
Czech Republic	3% - 6%	n/a
Denmark	2%	n/a
Estonia	n/a	
Finland	2%	
France	1,8%	n/a
Germany	5%	n/a
Greece	n/a	
Hungary	5% - 10%	
Ireland	n/a	
Italy	2,5%	
Latvia	1% - 2%	
Lithuania	5% - 10%	
Luxemburg	5% - 10%	
Malta	3%	
The Netherlands	2%	1,2 %
Poland	5%	
Portugal	7% - 10%	
Romania	n/a	
Spain	1%	n/a
Slovakia	6,5%	
Slovenia	n/a	
Sweden	n/a	
United Kingdom	1% - 5%	n/a

[162] *Please note that these figures are indicative*
[163] *This is based on information provided by the postal service operators and courier firms*
[164] *For the case of Belgium it seems that in comparison to the courier firms (2% - 5%), the national postal service operator experiences a higher amount of verification checks performed by Belgium Customs (10% - 15%).*

Annex K – Indicative overview of the available cost structures related to the collection of VAT

Country	Average cost related to the collection of VAT per consignment	Comments
Czech Republic	CZK 43Z (~EUR 15.80[165])	Per declaration: ▪ Labour/personnel cost are CZK 311 (~EUR 11.38 EUR) per consignment (72 %); ▪ IS/IT costs are CZK 37 (~EUR 1.35) per consignment (9 %); ▪ Overhead/operating costs are CZK 84 (~EUR 3.07) per consignment (19%); ▪ Other property costs are CZK 2 (~EUR 0.07 EUR) per consignment (0,5%)
Estonia	EUR 4.97	Per declaration: ▪ Personnel cost are EUR 4.65 ▪ IT cost are EUR 0.32
Finland	EUR 8.35	Per declaration: ▪ Average administrative cost are EUR 6.67; ▪ Average data communication cost are EUR 0.21; ▪ Average data management / IT-system cost are EUR 1.47
Latvia	EUR 1.8 – 2.2	N/A
Lithuania	LTL 26,35 (~EUR 7.63)	Per declaration: • labour/personnel cost: LTL 22.78 (~EUR 6.60); • IT cost: LTL 2.48 (~EUR 0.72); • Administrative cost: LTL 1.09 (~EUR 0.32)

[165] *Currency rate 1st January 2014: 1 EUR = 27.3343CZK*

Country	Average cost related to the collection of VAT per consignment	Comments
Luxembourg	EUR 2.50	Per declaration: ▪ Personnel cost are EUR 1.75; ▪ IT cost are EUR 0.375; ▪ Administrative cost are EUR 0.375
United Kingdom	GBP 20 (~EUR 24.10[166])	The total cost of putting people on the ground to deliver a 24 / 7 service is approximately GBP 5,472,333. The calculation is based on salary per grade of staff, overheads etc. It includes things such as training, completing annual reports and the cost of downtime. The Administration expects the above staff to clear 269 000 entries a year so the cost of clearing an entry = GBP 5 472 333 / 269 000 ≈ GBP20 Please note that this calculation does not cover postal goods.

166 *Currency rate 1st January 2014: 1 EUR = 0,830 GBP*

Annex L – Indicative overview of average cost per consignment for processing an import of goods by courier firms and postal service providers[167]

Country	Average cost per consignment for processing an import of consignments with a value below the VAT threshold	Average cost per consignment for processing an import of consignments with a value above the VAT threshold but below the EUR 150 customs duty threshold	Average cost per consignment for processing an import of consignments with a value above the EUR 150 customs duty threshold
Austria	EUR 2	EUR 2.50	EUR 5.48
Belgium	EUR 0.50 – 2.50	EUR 4.62 – 10.50	EUR 4.62 – 27
Bulgaria	EUR 4.13 EUR	EUR 11.46	EUR 11.46
Croatia	n/a	n/a	n/a
Cyprus	n/a	n/a	n/a
Czech Republic	EUR 0.50 – 5	EUR 14.57	EUR 14.57
Denmark	EUR 0.50 – 2.10	EUR 0.50 – 9.89	EUR 3.20 – 9.89
Estonia	n/a	n/a	n/a
Finland	EUR 2.46	EUR 14.54	EUR 14.54
France	EUR 2.34	EUR 11.61	EUR 11.61
Germany	EUR 5.77	EUR 16.46	EUR 16.46
Greece	n/a	n/a	n/a
Hungary	EUR 3.63	EUR 16.46	EUR 16.46
Ireland	EUR 1.65	EUR 8.38	EUR 8.38
Italy	EUR 2 – 4.28	EUR 6 – 17.13	EUR 6 – 17.13
Latvia	n/a	EUR 2.72 – 4.50	EUR 2.72 – 4.50
Lithuania	n/a	n/a	n/a
Luxemburg	n/a	n/a	n/a
Malta	n/a	n/a	n/a
The Netherlands	EUR 0.50 – 2.80	EUR 4.62 – 7.67	EUR 4.62 – 7.67
Poland	n/a	n/a	n/a
Portugal	n/a	n/a	n/a
Romania	n/a	EUR 6.77	EUR 6.77
Spain	EUR 0 – 2.10	EUR 8 – 12.98	EUR 8 – 12.98
Slovakia	EUR 1	EUR 7	EUR 7
Slovenia	n/a	n/a	n/a
Sweden	EUR 2.10	EUR 8	EUR 8
United Kingdom	EUR 1.50 – 2.10	EUR 1.80 – 5.77	EUR 1.80 – 5.77
EU indicative average[168]	EUR 2.34	EUR 8.96	EUR 9.21

[167] This is based on indicative information provided by the postal service operators and courier firms and should not be seen as a formal cost structure of all relevant parties.
[168] For the calculation of the EU indicative average, we have used the mid-point of the EU MS we obtained the information and computed the weighted average based on the MS' population share of the EU28 total population.

Annex M – Collection of data on volumes of small consignment

Providing a quantitative assessment of the goods covered by the LVCR requires the identification and collection of data on the volumes of small consignments imported into EU Member States from outside the EU. In addition, information on the price paid for small consignments would be required to conduct any price elasticity analysis.

Publicly available sources on imports for such products were explored; these include Eurostat and EU Member States' national statistics offices.

Extrastat data

Eurostat provides data on trade originating from outside the EU (Extra-EU27) since 1999. The relevant dataset contains monthly time series for the EU as a whole, as well as for each EU Member State from January 1999 until March 2014. It presents gross values (in Euros) and quantities in kilograms at the most detailed level of product nomenclatures (CN, HS, SITC, BEC, CPA, and NST/R). Products that were likely to benefit from the LVCR were identified by their corresponding Combined Nomenclature ("CN") codes and split into 15 different categories as identified in Section 2 of Part II.

Extra EU27 (adjusted for accession countries) - refers to the trade between Member States and partner countries that are not members of the EU. Data for the EU27 for periods before 2007 are calculated by summing up data for the 27 Member States. This is possible because, starting from January 1999; data for all 27 Member States are available according to a harmonised methodology, including a common classification for products (CN8) and partners (Geonomenclature).[169]

Import values/volumes threshold

After discussion with Eurostat, it was confirmed that the vast majority of these imports consisted of bulk shipments between businesses (i.e. B2B transactions), subject to VAT, and therefore outside the scope of the present study. Eurostat stated that it was not possible to identify and isolate small consignments below the value of EUR 22[170] (i.e. the value threshold of goods that benefit from the LVCR) from the Eurostat datasets. Further, in some Member States, a EUR 1 000 minimum threshold exists for reporting imports (in Extrastat), this makes import data unsuitable to use for the purposes of estimating volume of small consignments, or the calculation of price elasticities of the relevant products. See transcript of correspondence below:

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[169] *http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/documents/FAQ_XT_WEB_EN_final_January2012.pdf*

[170] *In the majority of Member States the LVCR threshold is EUR 22 except Bulgaria, Croatia, Cyprus, Denmark, Hungary, Lithuania, Romania, Sweden and the United Kingdom. (More details in Annex B).*

Correspondence with Eurostat:

Email date: 30/07/2014

The goods declared on the customs declaration will be included in international trade in goods statistics if they are in the scope of these statistics according to Article 3 of Regulation (EC) No 471/2009 of the European Parliament (extra-EU trade) and of the Council and Article 3 of Regulation (EC) No 638/2004 of the European Parliament and of the Council (intra-EU trade).

The goods declared orally to Customs are excluded if:

- *the goods are for non-commercial purposes, without limitation in value or quantity;*
- *the goods are for commercial purposes up to a value of EUR 1 000. Where the value is below EUR 1 000 but the net mass is above 1 000 kg the exclusion does not apply.*

Please find below the links to the documents mentioned:

Regulation (EC) No 471/2009
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:152:0023:0029:EN:PDF

Regulation (EC) No 638/2004

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02004R0638-20131126&from=EN

An example:

A French traveller returns back home with a video camera he bought during his holiday in Japan. The value is EUR 1 500, the camera is for private purposes and the customs declaration is made orally therefore the camera is excluded from Extrastat. If the customs request customs declaration then the camera will included in extra-EU trade statistics. Let's assume that the value is EUR 900 and the camera is for commercial purposes:

- *If the customs declaration is made orally, then the camera is excluded from extra-EU trade statistics;*
- *The customs declaration is made in written/electronic form then the exclusion does not apply, therefore the camera is included in extra-EU trade statistics.*

For goods imported or exported by national postal services (=postal operators authorised by a Member State to provide services governed by the Universal Postal Union Convention) and covered by simplified postal declarations (customs form CN22 or CN23), no customs declaration needs to be provided (subject to certain conditions) for consignments containing goods for commercial purposes of an aggregate value up to EUR 1 000. Then this trade is not included in the statistics.

Member States may transmit to Eurostat less details for the import/exports declared on customs declaration if the statistical value of a transaction is below EUR 1 000. Such data are recorded in COMEXT under code 99YY.

In addition, we also attach the COMEXT User Guide where on the page:

Page 14, point 2.9 you can find more information on the Thresholds

Text from relevant document:

Extra-EU trade statistics do not cover imports and exports whose value and net mass are lower than statistical thresholds fixed by Member States within the limits permitted by Community legislation. The limits in the legislation are fixed so that no export or import with neither net mass of more than one tonne nor a value of more than EUR 1 000 need be recorded. Since 2002, legislation, however, requires Member States to adjust their statistical data to incorporate trade below the threshold in their total results.

The amount of trade below the thresholds adopted by the Member States is generally below 1% for both imports and exports. The amount may be higher for some particular products.

- *Page 27, in the point 4.2. you can see what is included in the Combined Nomenclature in Chapter 99*
- *Annex 5 on page 47: about the Code 99YYY000.*

Text from relevant document:

Code 99YYY000: Adjustments reported by Member States (e.g. trade below the exemption threshold which is reported only on the total level).

Domestic consumption data

Data collected on domestic consumption of the relevant product types, which allows for comparison between the level and trends of domestic demand compared with extra-EU imports to understand any changes in trade patterns/trade flows of small consignment products since 1999.

The dataset consists of annual time series for the EU as well as each EU Member State from 1959 to 2013. The data are recorded at current and constant prices and include the corresponding implicit price indices[171]. Data are given according to COICOP classification (Classification of Individual Consumption by Purpose, see also Commission Regulation 113/2002 of 23 January 2002)[172].

COICOP and CN codes (import data) are not directly comparable, as COICOP uses much broader definition of products and services than CN classification. Therefore mapping based on assumptions that are informed by the given description for each set

[171] *http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/EN/nama_esms.htm*
[172] *http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/EN/nama_esms.htm*

of classification is required. The table below shows the mapping of the LVCR products to a COICOP classification.

Table 15: Domestic consumption classification

COICOP classification	CN classification
Clothing[173]	Clothing
Medical products, appliances and equipment	Health supplements
Audio-visual, photographic and information processing equipment	CDs/DVDs
	Video games
Other recreational items and equipment, gardens and pets	Cut flowers
	Toys
	Sport accessories
Newspapers, books and stationery	PC consumables (printer cartridges)
	Stationery
	Greeting cards
	Books
	Magazines
Personal care	Cosmetics
	Toiletries

Source: Eurostat

It should be noted that it is not possible to adjust COICOP data where classification includes a product which is not considered for LVCR analysis. However, the COICOP domestic classification consists of very similar products and trends within the categories and therefore should provide a reasonable overview of domestic consumption vs imports. Data on domestic consumption is provided only on total values and there is no information on average prices and quantities. As a result detailed pricing analysis, such as price elasticity of demand, is not feasible.

[173] *COICOP classification has a wider definition of clothing than the corresponding CN code*

Annex N – Price elasticity analysis

Definition

The price elasticity of demand for a good is a measure of the responsiveness of a consumer's purchasing behaviour to small changes in the price of a good.

The magnitude of the price elasticity has the potential to impact the existence and scale of market distortions created by the LVCR. The more elastic a good is, the more likely that the tax advantage achieved through benefiting from the LVCR would provide an advantage for a firm locating its activities in a country outside the EU. However, inelastic demand in respect of price does not *per se* rule out a competitive distortion impact because even a small shift in consumer behaviour can impact location decisions. Businesses would still gain a competitive advantage from locating outside the EU to avoid the LVCR, and could retain some element of the LVCR benefit in the form of profit.

Price elasticity measures the responsiveness of the quantity demanded of a good to a change in its price. Therefore, data on both price and quantity of a good is required to conduct such analysis.

There is limited publically available data on the domestic demand and pricing for the relevant products likely to benefit from the LVCR. The most relevant data that was identified was data on imports (and not domestic consumption) sourced from Eurostat and related to bulk shipments, and provided the level of granularity required; namely pricing and volume data by product type.

Therefore, a review of existing published literature on domestic consumption for the relevant products was conducted and price elasticities were estimated for similar products using the Eurostat data on imports. Since domestic demand of goods is directly related to consumption of imports, the import price elasticity demand analysis represents a reasonable proxy for the responsiveness of demand to a change in price of the relevant goods.

Approach

Price elasticity was estimated by applying a conventional (static) demand model for import from outside EU product demand. The model has the following linear representation:

$$(1) Q_t^i = \alpha + \beta_1 P_t^i + \beta_2 Y_t + \text{others}_t + \varepsilon_t$$

Where,

- Q_t^i (Dependent variable) is the per capita consumption for outside EU imported products;

- P_t^i is the average real price of that imported product derived from imports values and volumes;
- Y_t is the real disposable income per capita; and
- ε_t is the error term.

Other important macroeconomic variables such as employment/unemployment and the exchange rate index were also tested for statistical significance in every demand model.

Ordinary Least Squares (OLS) estimation was applied when modelling the import demand for the selected product. This enabled the estimation of unknown parameters in the model (i.e. the coefficients in the above function). This requires that all variables in the function are endogenous and therefore it was assumed that in both of the static models presented in equation (1), prices, income and other macroeconomic variables are endogenous, hence OLS was applied in order to determine the relationship between demand and prices of the small consignment goods.

Given the regression analysis was dealing with time-series data, there is a risk of calculating spurious results (i.e. misrepresentative outcomes) in the regressions, particularly where variables are non-stationary, e.g. the mean, variance, or autocorrelation were not constant over time.

In order to account for this, an Augmented Dickey-Fuller[174] test was conducted to understand the properties of the time-series. In cases where the data was found to be non-stationary, additional co-integration tests were performed on each static model to ensure robust statistical results. It should be noted that all models presented in this report pass standard OLS residual tests.

If an independent variable on the right hand side of equation (1) was found not to be statistically significant, it was removed from the demand equation. The best model per category was chosen by Akeike Information Criteria[175]. Independent variables with correlations that were greater than +/- 0.7 were excluded to prevent Multicollinearity[176] and therefore present robust elasticity results.

Interpreting the values of price elasticity coefficients

The results of the import price elasticity analysis should be interpreted as follows:

[174] Augment Dickey-Fuller – it tests if a time series have a trend (either stochastic or deterministic). This causes the variance of the variable to increase over time and leads to unreliable results of the estimates
[175] A measure of relative quality of an econometrics model given a dataset.
[176] Multicollinearity is a statistical phenomenon in which two or more predictor variables in a multiple regression model are highly correlated, meaning that one can be linearly predicted from the others with a non-trivial degree of accuracy.

Table 16: Price elasticity of demand interpretation

Price elasticity of demand (PED)	Interpretation
PED = 0	Perfectly inelastic demand – changes in price do not result in any changes in quantity
0<PED<-1	Inelastic – the percentage change in quantity is ***less*** than the percentage change in price
PED = -1	Unit elastic – the percentage change in quantity is ***equal*** to the percentage change in price
-1<PED<inf	Elastic – the percentage change in quantity is ***more*** than the percentage change in price

Source: Parkin; Powell; Matthews (2002). p.75.

In the context of the study, where import products are inelastic, then an increase in price (such as would arise as a result of removing the LVCR) would result in a smaller percentage change in the import quantity demanded. Therefore, the collected VAT by Member States would be higher than the estimated VAT foregone.

Literature review

A review was conducted that identified published literature which provided estimates of price elasticities for the relevant goods that benefit from the LVCR. The publications considered were:

- Eisenhauer J. G. and Principe K. E. (2009): "Price knowledge and Elasticity"
- Muhammad, A., Seale J. L., Meade, B. and Regmi, A. (2011): "International Evidence on Food Consumption Patterns. An update using 2005 International Comparison Program Data";
- Ghezzi, L. (2013): "Households Consumption in Italy. The INFORUM approach for a new multisectoral-multireginal model";
- Perona, M. (2004): "Essai de mesure de l'élasticité-prix de la demande de livre et de disques en France, 1960-2003", Mémoire de DEA, École d'économie de Paris; and
- Brynjolfsson, E., Smith, M. D. and Hu, Y. (2003): "Consumer Surplus in the Digital Economy: Estimating the Value of Increased Product Variety at Online Booksellers".

The outcome of the review is a collection of price elasticity estimates for those goods as shown in Table 17 below. In addition to reviewing and documenting the estimates from these studies, the table also presents the summary results of the elasticity analysis conducted on import data for each category.

Table 17: Literature review of price elasticities for products subject to LVCR

Categories – import data	Data window (reference)	Price elasticity	EY Import elasticity (EU average)
Clothing	2003 2005 2005	Europe (*): [-0.69, -0.49] Europe middle-income countries: -0.708 Europe high-income countries: -0.707	-0.67
Toys	1980 – 2010	Italy: -0.66	-0.58
Books	1980 – 2010	Books Italy: -0.18	-0.66

Categories – import data	Data window (reference)	Price elasticity	EY Import elasticity (EU average)
	1960 – 2003 2001	Books France: -2.00 eBooks: : [-1.79, -1.56]	
Sports accessories	1959 – 1998	USA: -0.81	-0.79
Cosmetics	1980 – 2010	Italy: -1.49	-0.65
Stationery		N/A	-0.54
Greetings cards		N/A	-0.72
Cut flowers	1980 – 2010	Italy: -0.66	-0.77
PC printer cartridges		N/A	-0.60
Contact lens solution		N/A	-0.80
Magazines	1980 – 2010	Italy: -0.18	-0.53
Para-pharmaceutical products	2003 2005 2005	Europe (*): [-0.89, -0.87] Europe middle-income countries: [-0.971,-0.923] Europe high-income countries: [-0.90,-0.92]	-0.60
Video Games	1995 – 2002	USA: -1.49	-1.07
DVDs	1980 – 2010	N/A	-0.82
CDs	1980 – 2010	N/A	-0.77

Notes: (*) Includes: Denmark, Germany, Luxemburg and United Kingdom
Source: Published literature as per list in this annex.

The range of results observed from the literature review suggest that demand for goods likely to be subject to LVCR is largely inelastic, depending on the study that is considered and the time period.

These results concur with the calculations of elasticity based on import data, in which all items, except video games, are estimated to be price inelastic (i.e. demonstrate a price elasticity of demand that is less than 1). The analysis of import data does not appear to identify any outliers that can be observed in the literature.

The relatively low price elasticities recorded for the relevant good could be due to a number of factors, including:

- The degree of necessity or whether the good is a luxury – necessities tend to have an inelastic demand whereas luxuries tend to have a more elastic demand. For example, books are more likely to fall into the latter category; and
- The proportion of a consumer's income allocated to spending on these goods – products that take up a low percentage of income will have a less elastic demand. Books are likely to fit into this category.

Price elasticities can be seen as an indicator of the likelihood of businesses trading in such goods benefitting from exploiting the LVCR to distort competition. In other words, the implication is that the more price elastic a good is, given the right conditions, the more likely businesses could benefit from the LVCR and shift to fulfilling orders from outside the EU and hence gain market share.

However, given the limitations of the data, it is not possible to draw a firm conclusion from this analysis as to the price sensitivity of consumers to prices of products likely to benefit from the LVCR. Moreover, evidence of inelastic demand in relation to price does not preclude the appetite of businesses to establish fulfillment locations outside the EU, as they can still benefit from a price advantage where the costs of relocation are outweighed by the savings on VAT. In particular as the goods in question are on average valued at approximately EUR 20, a price differential equal to VAT (e.g. 20 – 25%) could have a significant effect on purchasing decisions made by consumers.

Annex O – Estimation of the volume of small consignments

The UPU dataset shown in Section 2.5 of Part 2 (Table 2) contains a number of gaps, and therefore some adjustments and amendments to the data were made to account for this. These steps are explained in detail below.

Step 1 – estimation of a complete set of international parcel mail receipts

The objective of Step 1 was to develop a complete set of estimates for international parcel receipts by Member State for the period 1999 – 2013.

(1) Deriving a full series for EU Member States where only limited data points are missing - linear interpolation and extrapolation

There are 9 Member States for which complete data on international parcel receipts is available from the UPU for the period 1999 - 2013. These are: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Italy, Lithuania, Romania and Slovakia. The data for these Member States has been used in its entirety.

Data for Estonia in 2008 and the Netherlands in 2009 were removed from the dataset, as the values recorded appeared inconsistent with the remainder of the dataset for these Member States.

Linear interpolation and extrapolation was used to derive a full set of estimates for Member States where a single or limited number of data points were missing between two periods or at the end of the period. This approach was taken for the following Member States:

i. Estonia – the data point in 2008 did not appear internally consistent with the full time series. Therefore, it was removed and estimated using linear interpolation between 2007 and 2009.

ii. Hungary – the data point in 2013 was estimated by linear extrapolation from the period 1999 to 2012.

iii. Latvia – the data points in 2009 and 2010 were estimated using linear interpolation between 2008 and 2011. The data provided by the UPU for the period between 2002 and 2004 appears to be overstated by a factor of 10. To adjust for this, linear interpolation was used between 2001 and 2005.

iv. Luxembourg – the data point in 2013 was estimated by linear extrapolation from the period 1999 to 2012.

v. Malta – the data point in 2007 was estimated using linear interpolation between 2006 and 2008.

vi. Poland – the data point for 2012 was estimated using linear interpolation between 2011 and 2013.

vii. Portugal – the data point in 2013 was estimated by deducting the average estimated volume decline per year from the 2012 figure.

viii. Slovenia – the data point in 2009 was estimated using linear interpolation between 2008 and 2010.

Table 18 shows total international parcel receipts for countries which have complete, or near complete datasets after the adjustments discussed above have been made:

Table 18: International parcel receipts in millions (items) for selected EU Member States[177]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	0.145	0.153	0.138	0.146	0.148	0.156	0.214	0.115	0.198	0.217	0.222	0.189	0.180	0.131	0.154
Croatia	0.051	0.069	0.063	0.056	0.069	0.061	0.132	0.086	0.097	0.115	0.108	0.114	0.121	0.111	0.193
Cyprus	0.053	0.047	0.046	0.049	0.047	0.059	0.112	0.122	0.143	0.184	0.191	0.181	0.184	0.164	0.154
Czech Rep.	0.241	0.256	0.249	0.251	0.274	0.247	0.290	0.308	0.360	0.482	0.454	0.478	0.345	0.267	0.230
Estonia	0.044	0.046	0.036	0.045	0.042	0.042	0.067	0.037	0.042	*0.056*	0.070	0.074	0.068	0.120	0.140
Hungary	0.152	0.151	0.149	0.158	0.161	0.162	0.227	0.229	0.255	0.304	0.264	0.287	0.320	0.293	*0.332*
Italy	0.543	0.451	0.424	0.402	0.365	0.342	2.251	2.016	1.911	2.125	2.015	1.973	1.458	1.248	1.382
Latvia	0.049	0.057	0.055	*0.065*	*0.075*	*0.085*	0.095	0.088	0.103	0.103	*0.100*	*0.098*	0.096	0.078	0.091
Lithuania	0.049	0.052	0.052	0.054	0.055	0.060	0.091	0.093	0.108	0.114	0.103	0.119	0.130	0.137	0.142
Luxembourg	0.166	0.199	0.248	0.281	0.312	0.314	0.352	0.379	0.410	0.396	0.287	0.302	0.329	0.343	*0.391*
Malta	0.037	0.036	0.031	0.024	0.022	0.024	0.046	0.033	*0.056*	0.079	0.102	0.081	0.062	0.058	0.055
Poland	0.684	0.739	0.770	0.273	0.319	0.307	0.498	0.524	0.554	0.745	0.703	0.636	0.457	*0.610*	0.763
Portugal	0.229	0.203	0.201	0.158	0.154	0.123	0.111	0.104	0.094	0.109	0.110	0.109	0.101	0.104	*0.095*
Romania	0.180	0.173	0.168	0.170	0.166	0.159	0.260	0.257	0.303	0.229	0.201	0.278	0.222	0.235	0.249
Slovakia	0.076	0.096	0.118	0.199	0.452	0.629	0.136	0.127	0.246	0.233	0.368	0.374	0.389	0.381	0.396
Slovenia	0.059	0.053	0.050	0.058	0.061	0.063	0.043	0.073	0.085	0.101	*0.110*	0.120	0.198	0.319	0.384

Source: UPU, designated postal operators data, EY analysis

(2) Deriving full series for EU Member States where significant data gaps are observed – average parcels per head

There were more significant gaps (e.g. missing data for either a number of years or for the entire period) in the data for 10 Member States[178]. Several intermediary steps were undertaken to determine the missing figures:

i. Calculate the weighted average number of international parcels received per head and its growth trend for the Member States where either full data was available for each year or where we applied linear interpolation and extrapolation techniques to populate some limited gaps (Member States in Table 18).

ii. Use this calculation as a basis to populate the gaps for Finland, Greece and Ireland where only some data gaps are observed.

[177] *Adjusted figures are formatted in italics.*
[178] *Austria, Belgium, Finland, France, Germany, Greece, Ireland, the Netherlands, Spain and Sweden.*

iii. Recalculate the average parcels per head and the associated growth trend to populate missing volumes for Austria, Denmark, France, the Netherlands and Spain, where more data gaps were observed.

iv. Finally, calculate the volumes for Belgium, Germany and Sweden using average parcels per head from all other 24 Member States.

The volume of international parcel receipts per head was calculated by dividing total parcel volumes by the total population for each Member State[179], which enabled the calculation of a weighted average (see Table 19).

Table 19: International parcel receipts per head (items) for selected EU Member States

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	0.018	0.019	0.017	0.019	0.019	0.020	0.028	0.015	0.026	0.029	0.030	0.025	0.024	0.018	0.021
Croatia	0.011	0.015	0.015	0.013	0.016	0.014	0.031	0.020	0.023	0.027	0.025	0.026	0.028	0.026	0.045
Cyprus	0.077	0.068	0.066	0.069	0.066	0.082	0.152	0.163	0.188	0.237	0.240	0.221	0.219	0.190	0.178
Czech Rep.	0.023	0.025	0.024	0.025	0.027	0.024	0.028	0.030	0.035	0.047	0.044	0.046	0.033	0.025	0.022
Estonia	0.032	0.033	0.026	0.032	0.031	0.031	0.050	0.028	0.031	0.042	0.053	0.056	0.051	0.090	0.106
Hungary	0.015	0.015	0.015	0.016	0.016	0.016	0.023	0.023	0.025	0.030	0.026	0.029	0.032	0.030	0.034
Italy	0.010	0.008	0.007	0.007	0.006	0.006	0.039	0.035	0.033	0.036	0.034	0.033	0.025	0.021	0.023
Latvia	0.020	0.024	0.023	0.028	0.033	0.037	0.042	0.039	0.047	0.047	0.046	0.046	0.046	0.038	0.045
Lithuania	0.014	0.015	0.015	0.016	0.016	0.018	0.027	0.028	0.033	0.035	0.032	0.038	0.043	0.045	0.048
Luxembourg	0.388	0.459	0.565	0.633	0.696	0.690	0.764	0.809	0.862	0.819	0.581	0.602	0.642	0.654	0.728
Malta	0.099	0.094	0.080	0.062	0.056	0.060	0.114	0.080	0.138	0.194	0.249	0.196	0.149	0.139	0.129
Poland	0.018	0.019	0.020	0.007	0.008	0.008	0.013	0.014	0.015	0.020	0.018	0.017	0.012	0.016	0.020
Portugal	0.022	0.020	0.019	0.015	0.015	0.012	0.011	0.010	0.009	0.010	0.010	0.010	0.010	0.010	0.009
Romania	0.008	0.008	0.008	0.008	0.008	0.007	0.012	0.012	0.014	0.011	0.010	0.014	0.011	0.012	0.012
Slovakia	0.014	0.018	0.022	0.037	0.084	0.117	0.025	0.024	0.046	0.043	0.068	0.069	0.072	0.070	0.073
Slovenia	0.030	0.027	0.025	0.029	0.030	0.031	0.021	0.037	0.042	0.050	0.054	0.058	0.097	0.155	0.186
Weighted Average[180]	**0.016**	**0.016**	**0.016**	**0.014**	**0.015**	**0.016**	**0.028**	**0.026**	**0.028**	**0.032**	**0.031**	**0.031**	**0.026**	**0.026**	**0.029**
Weighted Percentage growth		**1.1%**	**0.9%**	**-14.2%**	**14.0%**	**4.0%**	**73.6%**	**-6.7%**	**8.2%**	**12.6%**	**-3.4%**	**0.1%**	**-14.1%**	**-1.2%**	**12.0%**

Source: EY analysis

An increase of 88% in the weighted average of international parcel receipts per head can be observed in the period 1999 to 2013.

To derive a full set of estimates for Finland, Greece and Ireland, a combination of linear interpolation techniques (for Finland 2000-2001 and Ireland 2005) was used together with applying the average growth trend to the data provided by the UPU. The resulting figures are shown in Table 20.

[179] *Source of population figures: Eurostat*
[180] *Weighted average by populations figures*

Table 20: International Parcel receipts in millions (items) for Finland and Ireland

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pre-adjustment:															
Finland	0.484			0.300	0.400	0.300	0.400	0.400	0.460	0.530					
Greece	0.258	0.238	0.252	0.220	0.201	0.209	0.266	0.265	0.294	0.315	0.305				
Ireland	0.520	0.613	0.720	0.330	0.449	0.500		0.400							
Adjusted figures (using weighted average parcels per head growth trend):															
Applied trend		*1.1%*	*0.9%*	*-14.2%*	*14.0%*	*4.0%*	*73.6%*	*-6.7%*	*8.2%*	*12.6%*	*-3.4%*	*0.1%*	*-14.1%*	*-1.2%*	*12.0%*
Finland (adjusted)	0.484	*0.423*	*0.361*	0.300	0.400	0.300	0.400	0.400	0.460	0.530	*0.512*	*0.513*	*0.441*	*0.435*	*0.487*
Greece (adjusted	0.258	0.238	0.252	0.220	0.201	0.209	0.266	0.265	0.294	0.315	0.305	*0.306*	*0.263*	*0.260*	*0.291*
Ireland (adjusted)	0.520	0.613	0.720	0.330	0.449	0.500	*0.450*	0.400	*0.433*	*0.487*	*0.471*	*0.471*	*0.405*	*0.400*	*0.448*

Source: UPU data and EY analysis

The average parcels per head derived for Finland, Greece and Ireland were added to the data presented in Table 19 to derive updated figures for weighted average parcels per head (this is shown in Table 21).

Table 21: Weighted average international parcel receipts per head (items) for selected EU Member States (including Finland, Ireland and Greece figures)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Weighted Average	0.020	0.021	0.021	0.017	0.019	0.020	0.031	0.029	0.031	0.035	0.034	0.034	0.029	0.029	0.032
Weighted Percentage growth		1.0%	2.1%	-21.3%	16.5%	1.7%	57.0%	-6.4%	8.7%	12.5%	-3.4%	0.1%	-14.1%	-1.2%	12.0%

Source: EY analysis

The weighted average of total international parcel receipts per head increased from 1999 to 2008 and then declined in the period from 2009 to 2012. This was probably as a consequence of the global financial crisis and the economic difficulties in some EU Member States as well as the full liberalization of the postal market. It began to show signs of recovery in 2013.

The trend of the weighted average international parcel receipts per head in Table 21 was multiplied by population to estimate volume gaps in the data for the following Member States: Austria, France, the Netherlands and Spain. The original data and the resulting estimates are presented in

Table 22.

Table 22: International parcel receipts in millions (items) for Member States where the some data is missing from the UPU dataset

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pre-adjustment:															
Austria		1.203	0.935	0.909	1.306	1.680									
Denmark											3.675	4.182			
France	0.872	0.850	0.883												
Netherlands*			0.528	0.528	0.530	0.523	0.424	0.280	0.204		230.63*				
Spain	0.617	0.624	0.553	0.489	0.557	0.704	1.333	1.456							
a) **Adjusted figures using the growth trend of the weighted average parcels per head:**															
Applied trend		*1.0%*	*2.1%*	*-21.3%*	*16.5%*	*1.7%*	*57.0%*	*-6.4%*	*8.7%*	*12.5%*	*-3.4%*	*0.1%*	*-14.1%*	*-1.2%*	*12.0%*
Austria	*1.190*	1.203	0.935	0.909	1.306	1.680	*2.637*	*2.469*	*2.684*	*3.019*	*2.915*	*2.917*	*2.507*	*2.477*	*2.774*
Denmark	*2.203*	*2.226*	*2.272*	*1.787*	*2.082*	*2.118*	*3.324*	*3.112*	*3.384*	*3.805*	3.675	4.182	*3.594*	*3.551*	*3.977*
France	0.872	0.850	0.883	*0.695*	*0.809*	*0.823*	*1.292*	*1.210*	*1.315*	*1.479*	*1.428*	*1.429*	*1.228*	*1.214*	*1.359*
Netherlands*	*0.512*	*0.517*	0.528	0.528	0.530	0.523	0.424	0.280	*0.204*	*0.229*	*0.222*	*0.222*	*0.191*	*0.188*	*0.211*
Spain	0.617	0.624	0.553	0.489	0.557	0.704	1.333	1.456	*1.583*	*1.780*	*1.719*	*1.720*	*1.478*	*1.460*	*1.636*

* Data point (Netherland 2009) was removed as inconsistent

Source: UPU data and EY analysis

A new weighed average per head was derived for the 24 Member States (except Belgium, Germany, Sweden and United Kingdom) for which the data was adjusted and/or completed following the intermediary steps above (this is shown in Table 23).

Table 23: Average international parcel receipts per head (items) for selected EU Member States (including Austria, Denmark, France, Netherlands and Spain figures)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Weighted Average	0.029	0.029	0.028	0.023	0.027	0.029	0.045	0.042	0.046	0.051	0.049	0.051	0.043	0.043	0.048
Weighted Percentage growth		0.5%	-2.0%	-17.9%	18.0%	6.5%	54.6%	-6.1%	7.6%	12.0%	-3.8%	2.9%	-14.2%	-1.4%	11.9%

Source: EY analysis

The weighted average international parcel receipts per head in Table 23 were multiplied by population to estimate volume gaps in the data for the following Member States: Belgium, Germany, and Sweden. The original data and the resulting estimates are presented in Table 24.

Table 24: International parcel receipts in millions (items) for Member States where the majority of the data is missing from the UPU dataset

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pre-adjustment:															
Belgium															
Germany															
Sweden											0.301				
a) Adjusted figures using weighted average parcels per head:															
Applied trend	*0.029*	*0.029*	*0.028*	*0.023*	*0.027*	*0.029*	*0.045*	*0.042*	*0.046*	*0.051*	*0.049*	*0.051*	*0.043*	*0.043*	*0.048*
Belgium	*0.295*	*0.297*	*0.291*	*0.240*	*0.285*	*0.304*	*0.473*	*0.446*	*0.484*	*0.546*	*0.530*	*0.549*	*0.478*	*0.476*	*0.535*
Germany	*2.366*	*2.381*	*2.335*	*1.921*	*2.269*	*2.416*	*3.733*	*3.501*	*3.761*	*4.207*	*4.039*	*4.145*	*3.553*	*3.509*	*3.934*
Sweden	*0.255*	*0.257*	*0.252*	*0.208*	*0.246*	*0.263*	*0.408*	*0.384*	*0.416*	*0.470*	0.301	*0.473*	*0.409*	*0.407*	*0.458*

Source: UPU data and EY analysis

(3) Deriving full series for the United Kingdom

For the United Kingdom, the missing data points were estimated using linear interpolation between 2000 and 2004 and between 2007 and 2009.

Table 25: International Parcel receipts in millions (items) for the United Kingdom

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
UK (UPU data)	6.570	3.825				6.310	6.700	2.070	2.395		1.944	1.771	1.747	1.492	1.355
UK (adjusted)	6.570	3.825	*4.447*	*5.068*	*5.689*	6.310	6.700	2.070	2.395	*2.169*	1.944	1.771	1.747	1.492	1.355

Source: UPU data and EY analysis

On 1 January 2006, Royal Mail lost its 350-year monopoly and the British postal market became fully open to competition. This may explain the downward trend in the volumes, since the UPU does not report the private operators' volumes.

Complete volume estimate for international parcel receipts handled by designated postal operators for all EU Member States

The complete set of estimates for international parcels receipts handled by designated postal operators by Member State for the period 1999 – 2013 are shown Table 26.

Table 26: International parcel receipts in millions (items), a complete dataset using weighted average

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	1.190	1.203	0.935	0.909	1.306	1.680	2.637	2.469	2.684	3.019	2.915	2.917	2.507	2.477	2.774
Belgium	0.295	0.297	0.291	0.240	0.285	0.304	0.473	0.446	0.484	0.546	0.530	0.549	0.478	0.476	0.535
Bulgaria	0.145	0.153	0.138	0.146	0.148	0.156	0.214	0.115	0.198	0.217	0.222	0.189	0.180	0.131	0.154
Croatia	0.051	0.069	0.063	0.056	0.069	0.061	0.132	0.086	0.097	0.115	0.108	0.114	0.121	0.111	0.193
Cyprus	0.053	0.047	0.046	0.049	0.047	0.059	0.112	0.122	0.143	0.184	0.191	0.181	0.184	0.164	0.154
Czech Rep.	0.241	0.256	0.249	0.251	0.274	0.247	0.290	0.308	0.360	0.482	0.454	0.478	0.345	0.267	0.230
Denmark	2.203	2.226	2.272	1.787	2.082	2.118	3.324	3.112	3.384	3.805	3.675	4.182	3.594	3.551	3.977
Estonia	0.044	0.046	0.036	0.045	0.042	0.042	0.067	0.037	0.042	0.056	0.070	0.074	0.068	0.120	0.140
Finland	0.484	0.423	0.361	0.300	0.400	0.300	0.400	0.400	0.460	0.530	0.512	0.513	0.441	0.435	0.487
France	0.872	0.850	0.883	0.695	0.809	0.823	1.292	1.210	1.315	1.479	1.428	1.429	1.228	1.214	1.359
Germany	2.366	2.381	2.335	1.921	2.269	2.416	3.733	3.501	3.761	4.207	4.039	4.145	3.553	3.509	3.934
United Kingdom	6.570	3.825	4.447	5.068	5.689	6.310	6.700	2.070	2.395	2.169	1.944	1.771	1.747	1.492	1.355
Greece	0.258	0.238	0.252	0.220	0.201	0.209	0.266	0.265	0.294	0.315	0.305	0.306	0.263	0.260	0.291
Hungary	0.152	0.151	0.149	0.158	0.161	0.162	0.227	0.229	0.255	0.304	0.264	0.287	0.320	0.293	0.332
Ireland	0.520	0.613	0.720	0.330	0.449	0.500	0.450	0.400	0.433	0.487	0.471	0.471	0.405	0.400	0.448
Italy	0.543	0.451	0.424	0.402	0.365	0.342	2.251	2.016	1.911	2.125	2.015	1.973	1.458	1.248	1.382
Latvia	0.049	0.057	0.055	0.065	0.075	0.085	0.095	0.088	0.103	0.103	0.100	0.098	0.096	0.078	0.091
Lithuania	0.049	0.052	0.052	0.054	0.055	0.060	0.091	0.093	0.108	0.114	0.103	0.119	0.130	0.137	0.142
Luxembourg	0.166	0.199	0.248	0.281	0.312	0.314	0.352	0.379	0.410	0.396	0.287	0.302	0.329	0.343	0.391
Malta	0.037	0.036	0.031	0.024	0.022	0.024	0.046	0.033	0.056	0.079	0.102	0.081	0.062	0.058	0.055
Netherlands	0.512	0.517	0.528	0.528	0.530	0.523	0.424	0.280	0.204	0.229	0.222	0.222	0.191	0.188	0.211
Poland	0.684	0.739	0.770	0.273	0.319	0.307	0.498	0.524	0.554	0.745	0.703	0.636	0.457	0.610	0.763
Portugal	0.229	0.203	0.201	0.158	0.154	0.123	0.111	0.104	0.094	0.109	0.110	0.109	0.101	0.104	0.095
Romania	0.180	0.173	0.168	0.170	0.166	0.159	0.260	0.257	0.303	0.229	0.201	0.278	0.222	0.235	0.249
Slovakia	0.076	0.096	0.118	0.199	0.452	0.629	0.136	0.127	0.246	0.233	0.368	0.374	0.389	0.381	0.396
Slovenia	0.059	0.053	0.050	0.058	0.061	0.063	0.043	0.073	0.085	0.101	0.110	0.120	0.198	0.319	0.384
Spain	0.617	0.624	0.553	0.489	0.557	0.704	1.333	1.456	1.583	1.780	1.719	1.720	1.478	1.460	1.636
Sweden	0.255	0.257	0.252	0.208	0.246	0.263	0.408	0.384	0.416	0.470	0.301	0.473	0.409	0.407	0.458

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	**18.900**	**16.234**	**16.630**	**15.084**	**17.545**	**18.984**	**26.364**	**20.586**	**22.379**	**24.627**	**23.468**	**24.112**	**20.953**	**20.466**	**22.618**

Source: UPU, designated postal operators data and EY analysis

In total, international parcel receipts are estimated to have grown from 18.90 million items in 1999 to 22.66 million in 2013, an increase of 20% over the period. Higher volumes were also registered between 2005 and 2010 with a maximum reached in 2005 at 26.36 million.

At a country level there are some apparent anomalies in the data. In particular, for Spain and Italy, we observe a structural break in the series in 2005, where there is a considerable year on year increase in total parcel numbers. For Italy, volumes increase from 0.3 million in 2004 to 2.3 million in 2005, while for Spain for the same year volumes increase from 0.7 million to 1.3 million (Table 26). This could be explained by the fact that the UPU only introduced the "express" items category in 2005 and therefore, prior to this year, the volumes of this type of post may not have been recorded. There is also a significant decline in volumes for the United Kingdom between 2005 (6.7 million parcels) and 2006 (2.1 million parcels), which again is a significant structural break[181]. The UPU were not able to provide an explanation of these anomalies, but the full liberalization of the UK postal market on 1 January 2006 may explain this decline.

The consequence is that the data for Italy and Spain pre-2005, and the data for the United Kingdom post-2005 probably understate volumes of international parcel receipts. However, the impacts of these two structural breaks are partially offsetting, and the trend in the total number of parcels for the EU as a whole is consistent with trends in, for example, the growth of individuals who have shopped online in the last three months which increased from 15% to 38% in the period between 2004 and 2013[182]. Therefore, no adjustments for the identified structural breaks have been undertaken, and the estimates shown in Table 26 were used as the basis for further analysis.

Table 27: International parcel receipts per head, a complete dataset using weighted average

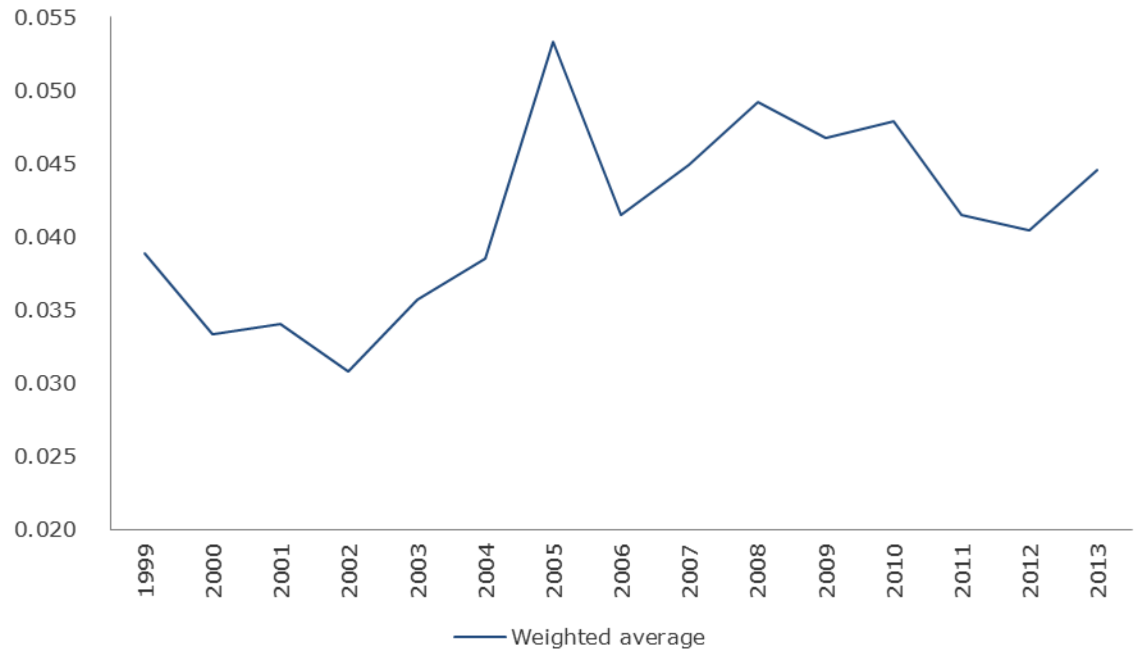
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	0.149	0.150	0.117	0.113	0.161	0.206	0.322	0.299	0.324	0.363	0.349	0.348	0.298	0.295	0.328
Belgium	0.029	0.029	0.028	0.023	0.027	0.029	0.045	0.042	0.046	0.051	0.049	0.051	0.043	0.043	0.048
Bulgaria	0.018	0.019	0.017	0.019	0.019	0.020	0.028	0.015	0.026	0.029	0.030	0.025	0.024	0.018	0.021
Croatia	0.011	0.015	0.015	0.013	0.016	0.014	0.031	0.020	0.023	0.027	0.025	0.026	0.028	0.026	0.045
Cyprus	0.077	0.068	0.066	0.069	0.066	0.082	0.152	0.163	0.188	0.237	0.240	0.221	0.219	0.190	0.178
Czech Rep.	0.023	0.025	0.024	0.025	0.027	0.024	0.028	0.030	0.035	0.047	0.044	0.046	0.033	0.025	0.022
Denmark	0.415	0.418	0.425	0.333	0.387	0.392	0.614	0.573	0.621	0.695	0.667	0.756	0.646	0.636	0.710
Estonia	0.032	0.033	0.026	0.032	0.031	0.031	0.050	0.028	0.031	0.042	0.053	0.056	0.051	0.090	0.106
Finland	0.094	0.082	0.070	0.058	0.077	0.057	0.076	0.076	0.087	0.100	0.096	0.096	0.082	0.081	0.090
France	0.014	0.014	0.014	0.011	0.013	0.013	0.021	0.019	0.021	0.023	0.022	0.022	0.019	0.019	0.021
Germany	0.029	0.029	0.028	0.023	0.027	0.029	0.045	0.042	0.046	0.051	0.049	0.051	0.043	0.043	0.048

[181] The trend in the UPU data for the UK is not supported by e-commerce data, as the share of UK consumers shopping online has increased from 25% in 2002 to 71% in 2013, which is an increase of 184% - Source: Eurostat, Information society statistics.
[182] Source: Eurostat, Information society.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
United Kingdom	0.112	0.065	0.075	0.086	0.096	0.106	0.111	0.034	0.039	0.035	0.031	0.028	0.028	0.024	0.021
Greece	0.024	0.022	0.023	0.020	0.018	0.019	0.024	0.024	0.026	0.028	0.027	0.027	0.024	0.023	0.026
Hungary	0.015	0.015	0.015	0.016	0.016	0.016	0.023	0.023	0.025	0.030	0.026	0.029	0.032	0.030	0.034
Ireland	0.139	0.162	0.188	0.085	0.113	0.124	0.109	0.095	0.100	0.109	0.104	0.104	0.089	0.087	0.098
Italy	0.010	0.008	0.007	0.007	0.006	0.006	0.039	0.035	0.033	0.036	0.034	0.033	0.025	0.021	0.023
Latvia	0.020	0.024	0.023	0.028	0.033	0.037	0.042	0.039	0.047	0.047	0.046	0.046	0.046	0.038	0.045
Lithuania	0.014	0.015	0.015	0.016	0.016	0.018	0.027	0.028	0.033	0.035	0.032	0.038	0.043	0.045	0.048
Luxembourg	0.388	0.459	0.565	0.633	0.696	0.690	0.764	0.809	0.862	0.819	0.581	0.602	0.642	0.654	0.728
Malta	0.099	0.094	0.080	0.062	0.056	0.060	0.114	0.080	0.138	0.194	0.249	0.196	0.149	0.139	0.129
Netherlands	0.032	0.033	0.033	0.033	0.033	0.032	0.026	0.017	0.012	0.014	0.013	0.013	0.011	0.011	0.013
Poland	0.018	0.019	0.020	0.007	0.008	0.008	0.013	0.014	0.015	0.020	0.018	0.017	0.012	0.016	0.020
Portugal	0.022	0.020	0.019	0.015	0.015	0.012	0.011	0.010	0.009	0.010	0.010	0.010	0.010	0.010	0.009
Romania	0.008	0.008	0.008	0.008	0.008	0.007	0.012	0.012	0.014	0.011	0.010	0.014	0.011	0.012	0.012
Slovakia	0.014	0.018	0.022	0.037	0.084	0.117	0.025	0.024	0.046	0.043	0.068	0.069	0.072	0.070	0.073
Slovenia	0.030	0.027	0.025	0.029	0.030	0.031	0.021	0.037	0.042	0.050	0.054	0.058	0.097	0.155	0.186
Spain	0.016	0.016	0.014	0.012	0.013	0.017	0.031	0.033	0.035	0.039	0.037	0.037	0.032	0.031	0.035
Sweden	0.029	0.029	0.028	0.023	0.027	0.029	0.045	0.042	0.046	0.051	0.033	0.051	0.043	0.043	0.048
Weighted average	**0.039**	**0.033**	**0.034**	**0.031**	**0.036**	**0.039**	**0.053**	**0.041**	**0.045**	**0.049**	**0.047**	**0.048**	**0.041**	**0.040**	**0.045**

Source: UPU, designated postal operators data and EY analysis

Figure 12: Weighted average international parcels receipts per head for EU-28 Member States, 1999 – 2013



Source: EY analysis

The trend and the numbers reported show that a combination of factors should be considered for this market segment. One factor is the effects of the growth of e-commerce as well as the growth in the global economy up to 2008 and the impact those have on sales and imports. Another factor is the decreasing trend of designated postal operators due to liberalization of the postal market.

Step 2 – estimating total international parcel receipts originating from outside the EU

In Step 2 the objective is to identify the proportion of international parcel receipts that originate from outside the EU. As described above, the UPU does not provide the country of origin for the data it collates on international mail receipts. Postal regulators and designated postal operators in each of the EU-27 countries (excluding Croatia) were contacted directly to enquire as to whether they had additional information, and responses were received from designated postal operators in three Member States for the entire period (the data is presented in Table 28).

Table 28: Proportion of international parcel receipts originating from outside the EU[183]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MS A	51%	48%	49%	55%	56%	51%	50%	27%	24%	22%	45%	41%	55%	41%	32%
MS B	32%	34%	27%	14%	11%	22%	26%	27%	29%	24%	32%	26%	30%	26%	N/A
MS C	4%	22%	20%	22%	24%	24%	27%	25%	11%	12%	22%	23%	22%	28%	N/A

Source: Designated postal operators

Another three designated postal operators provided some limited recent figures:

- MS D – Parcels from non-EU countries account for 45% of total in 2011.
- MS E – Parcels from non-EU countries account for 42% and 34% of total in 2011 and 2012 respectively.
- MS F – Parcels from EU countries account for 60% of total volumes provided, thus the non-EU share is 40%. However, no specific year for this data was provided.

This information has been used to estimate the number of international parcel receipts originating from outside the EU for the relevant Member States. Where only one data point was available, this percentage was held constant throughout the entire period (for example this was the case with MS D and MS F). In the case of MS E, where two data points were available, the average of the two data points provided was applied (38%) for all missing periods, given the wide variation of the data points provided by the designated postal operator.

The Member States that provided this information are relatively new members of the EU, and relatively small in terms of population. Therefore, there was a risk that the data provided by these countries would not be sufficiently representative of the EU as a whole.

To address this issue, some additional information from a review of available literature was sought to arrive at a more representative split of international parcel receipts between those sent from outside and within the EU. A study produced by WIK Consult, a German consultancy specialising in telecommunications and postal policy, provided an overview of, and recommendations on, the EU regulatory framework for the postal

[183] We have anonymised responses from Member States that provided this information. "MS" represents Member States.

sector[184]. In this study WIK Consult estimated that for 2010 26%[185] of international parcel receipts for the EU27 plus Iceland, Liechtenstein and Norway came from outside the EU.

A reasonable conclusion is that this percentage presents a more representative estimate for the EU as a whole, and therefore this percentage has been applied for all Member States where no other data is available across the whole period. This proportion (i.e. 26%) represents the base case applied in the analysis. However, as a sensitivity check, the analysis also considers the impact of a low and high variation of +/- 7.5% to the figure of 26%.

The resulting datasets are shown in Table 29. In the base case, an increase in volumes between 1999 and 2013 of 20% is observed.

Table 29: Total international parcel receipts originating from outside the EU in millions (designated postal operators - items)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Low (18.5%)	3.64	3.16	3.21	2.92	3.38	3.65	5.09	3.96	4.30	4.74	4.60	4.72	4.14	4.01	4.40
Base (26%)	5.00	4.32	4.41	4.00	4.64	5.02	6.99	5.43	5.89	6.48	6.26	6.42	5.61	5.44	5.98
High (33.5%)	6.37	5.48	5.60	5.08	5.90	6.39	8.89	6.89	7.48	8.23	7.92	8.12	7.08	6.87	7.57

Source: EY analysis

The impacts of the volume scenarios on the final estimate of the volume of small consignments that benefit from the LVCR are analysed in Section 3.2.

Step 3 – estimation of proportion of small consignments within total international parcel receipts from outside the EU

In Step 3, having established an estimate of the volume of international parcel receipts originating from outside the EU, the volume of these parcels whose value is below the set threshold for the LVCR is calculated.

This information was neither available in the UPU database, nor from the designated postal operators that were contacted. However, a large private postal operator provided information on the total number of international parcel receipts originating from outside the EU that they handled by Member State (excluding Cyprus, Greece, and Malta[186]) and the relative spilt by value of these parcels between low (as defined by LVCR thresholds), medium and high value consignments.

The data provided is presented in
Table 30. The data was provided for a single year (2013), and from a single private operator. This information was discussed with, and confirmed as being reasonable by, the private postal operator that provided the data.

[184] *Study on the External Dimension of the EU Posta Acquis, http://ec.europa.eu/internal_market/post/doc/studies/2010-wik-external-dimension_en.pdf*
[185] *WIK estimate based on interviews, postal and trade statistics, see page 21 of their report.*
[186] *The EU average for Member States was applied where data was not available.*

Table 30: Proportions of international parcel receipts volumes by value in 2013

	Low value consignments proportions	Mid value consignments proportions	High value consignments proportions
Austria	47%	23%	30%
Belgium	55%	17%	28%
Bulgaria	73%	11%	16%
Cyprus	n/a	n/a	n/a
Czech Republic	50%	17%	34%
Germany	48%	17%	36%
Denmark	54%	20%	26%
Estonia	62%	14%	24%
Spain	65%	18%	18%
Finland	48%	23%	29%
France	57%	17%	26%
United Kingdom	55%	19%	25%
Greece	n/a	n/a	n/a
Croatia	60%	19%	21%
Hungary	63%	13%	25%
Ireland	49%	20%	31%
Italy	61%	18%	20%
Lithuania	70%	10%	20%
Luxembourg	74%	10%	16%
Latvia	69%	13%	18%
Malta	n/a	n/a	n/a
Netherlands	46%	18%	35%
Poland	64%	14%	22%
Portugal	67%	16%	17%
Romania	62%	15%	23%
Sweden	48%	25%	27%
Slovenia	66%	15%	19%
Slovakia	61%	16%	23%
Weighted Average	57%	17%	26%

Source: Private postal operator

Some additional literature review was conducted to verify this information. We found an estimate for the Royal Mail (the designated postal operator in the United Kingdom) whereby three out of four parcels (i.e. 75%) they delivered were considered as "Small Parcels"[187]. This is a higher percentage than the one reported by the private postal operator, and suggests that designated postal operators deliver a higher proportion of low value parcels relative to private postal operators. The higher proportion of low value consignments was also confirmed in a survey conducted by the European Commission in 2001[188], indicating that low value consignments represented 80% of total packages delivered by public postal operators.

[187] http://postandparcel.info/58738/news/markets/royal-mail-adds-deep-format-to-its-small-parcels-service/

[188] Small Technical Working Group (STEWOG) on Small Consignments, Report of the third meeting of the Group, Brussels, 2 October 2001

Therefore, as a sensitivity analysis, an alternative assumption has been applied that in each Member State 80% of total parcels can be considered as small consignments, with this held constant over the period. This assumption appears reasonable given the consistency between the 80% figure from the 2001 European Commission study and the figure identified for the Royal Mail from the 2013 press article.

For this reason, the analysis in this step considers three scenarios:

A low scenario based on the low value consignment proportion estimates for each Member State provided by the private postal operator as shown in

- Table 30;
- A high scenario assuming that in each Member State 80% of total parcels can be considered as small consignments, this will be held constant over the period under review; and
- A base case in which the average of the low scenario, the high scenario and the estimate provided by Royal Mail (i.e. 75%) is applied. This results in a 71% share for small consignments.

The output of this step is an estimate of the total volumes of small consignments within international parcel receipts originating from outside the EU.

Table 31: Total international receipts of small consignments originating from outside the EU in millions (items)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Volumes based on Step 2, Base (26%)															
Low	2.73	2.36	2.41	2.19	2.53	2.74	3.83	2.97	3.22	3.54	3.43	3.51	3.08	2.98	3.28
Base (71%)	3.54	3.05	3.12	2.83	3.28	3.55	4.94	3.83	4.16	4.58	4.42	4.54	3.97	3.85	4.23
High (80%)	4.00	3.45	3.53	3.20	3.71	4.02	5.59	4.34	4.71	5.19	5.01	5.13	4.49	4.35	4.79

Source: EY analysis

Step 4 – estimation of the volume of small consignments categorised as Letter-post

As detailed in Section 2.4, under the UPU categorisation of mail, small consignments below 2kg in weight (such as magazines) would be recorded within the Letter-post category. Therefore, the objective of Step 4 is to adjust the output of Step 3 to account for such consignments.

The total volumes of international Letter-post are substantially higher than international parcel volumes, for example, for certain Member States the Letter-post category is 100 times as high as parcel post[189]. However, Letter-post has also seen a substantial decline of 37%[190] over the period 1999 – 2013 largely as a consequence of the growth of electronic mail.

[189] *Italy 2013, Source UPU*
[190] *Source: UPU statistics of international letter receipts (Letter-post items, registered items and insured letters) for selected EU countries (Bulgaria, Cyprus, United Kingdom, Ireland, Italy, Malta, Poland, Romania)*

It is not possible to identify within the UPU dataset the proportion of total Letter-post that could be assumed to fall within the small consignments category, and there was a risk that, given the relative decline in volumes, assuming that a fixed proportion of total Letter-post were actually small consignments, would result in a downwards bias in the estimates.

Therefore, an uplift has been applied to the output of Step 3, based on an assumption sourced from publicly available information on the volume of these small parcels. In particular, a news article published online in http://postandparcel.info website quotes the UPU as stating that there were a "significant" number of small e-commerce packets being sent through the letter stream — estimated to be about 240 million globally in 2013[191]. Another article published on the same website states that cross-border parcels, including the small parcels passing through the letters stream, numbered around 300 million in 2013[192].

From these two articles the ratio of total parcel post in comparison with parcels passing through the letter stream is estimated to be 1:5. It is likely that a higher proportion of the 240 million packages sent through the letter stream would be of low value, compared to the proportion of low value parcels amongst the 300 million parcels in total. Therefore, to account for this, the ratio was revised upwards to 1:8 in our base case, and applied as a uplift to the output of Step 3. It should be noted that the results are highly sensitive to this parameter, and that the source for this calculation is a press article rather than a public dataset. As a result, it is appropriate to run sensitivity analysis on this ratio; specifically ratios of 1:5 and 1:8 and 1:10 are considered for the minimum, base and maximum scenarios respectively. Results are shown in Table 32 below.

The purpose of these alternate scenarios is to provide an indication, given the level of uncertainty around the number of parcels passing through the letter stream, of how much the international parcel estimates can vary. A scenario using a ratio of 1.5 (minimum scenario) for instance reduces our estimates by 60%. Similarly, a scenario using a ratio of 1.10 (maximum scenario) will increase the estimates by 60%.

Table 32: International parcel receipts of small consignments for EU-28 originating from outside the EU including small consignments passing through the letter stream (million items)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Base (26% of extra-EU volumes, low value proportion 71%)															
1:5	17.68	15.26	15.58	14.13	16.39	17.74	24.69	19.17	20.81	22.91	22.12	22.68	19.83	19.23	21.14
Base 1:8	28.29	24.42	24.92	22.61	26.23	28.38	39.51	30.68	33.29	36.66	35.39	36.29	31.72	30.76	33.82
1:10	35.36	30.52	31.16	28.26	32.79	35.48	49.38	38.35	41.62	45.83	44.23	45.36	39.65	38.45	42.27

Source: EY analysis

[191] *http://postandparcel.info/63519/news/markets/postal-parcel-volumes-up-across-globe-but-not-in-asia-pacific/*

[192] *http://postandparcel.info/63272/news/markets/upu-develops-global-cross-border-e-commerce-solution-in-record-time/*

Step 5 – estimation of volume of small consignments delivered by private operators.

The next adjustment is to account for the additional volume of international receipts of small consignments originating from outside the EU that are managed by private postal operators, as the UPU provides data only from designated postal operators. To derive the private operators' volumes, several assumptions were made.

In the beginning of the period, the information from a survey carried out by the European Commission in 2001[193] was used. The survey estimated that in 2001 designated postal operators handled more than 95% of small consignments, while private operators handled less than 5%.

Therefore, the private operators' market share in 2001 (1999 and 2000 were assumed to be the same as 2001) for all Member States has been set to the value reported in the EC survey from 2001, i.e. 5%. This 5% share was applied to the final UPU figures calculated in Step 4 to derive the volumes of the private operators between 1999 and 2001.

For the end of the period, information received from a private postal operator was used. This operator was able to provide data for 2013 on small consignment volumes originating from outside the EU and on market shares of the main firms[194] handling express post[195] for 2011. This data was used to estimate the volumes handled by private operators for 2013 based on the assumption that the private postal operator's market shares remained unchanged between 2011 and 2013.

The data provided by the private postal operator on market shares is for 2011. However, postal markets across the EU have seen significant developments in competition over the last few years, and as a consequence it is likely that the market share of private postal operators has increased over time. This process has been facilitated by the establishment of three postal directives: Directive 97/67/EC of 1997, Directive 2002/39 and Directive 2008/6/EC[196].

The Directives have provided a framework for the gradual liberalisation of postal services through the introduction of competition to the postal market. The EU Directives have generated benefits to consumers through the introduction of new services, improved quality of service provision and lower prices.

This evolution of market shares is supported by a comparison of the volumes observed in 2013 of private and designated parcels (in 2013, private operators' market share is estimated to be 72% vs 28% of designated operators).

In order to derive the private operators' volumes between 2001 and 2013, the 2001 and 2013 data points for the express market of international receipts of small

[193] *Small Technical Working Group (STEWOG) on Small Consignments, Considerations on how to modernise the importation of small consignments, Brussels, 2 October 2001*
[194] *FedEx, DHL Express, TNT and UPS*
[195] *Intercontinental outbound volume market shares (according to a private operator inbound market shares are comparable)*
[196] *Source: http://ec.europa.eu/competition/sectors/postal_services/overview_en.html*

consignments originating from outside the EU for each Member State were interpolated. The resulting volumes of the public operators' small consignment volumes are presented in Table 33 .

While the estimated express market volumes are increasing linearly year on year, as shown in Table 33, in practice the growth trend might not have the same evolution. However, due to data limitation, it was not possible to arrive at more precise estimates for the period 2001 to 2013.

Table 33: Private operators' total volumes of international small consignment receipts originating from outside the EU millions (items), base case

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	0.09	0.09	0.07	0.19	0.30	0.41	0.52	0.64	0.75	0.86	0.98	1.09	1.20	1.32	1.43
Belgium	0.02	0.02	0.02	0.25	0.48	0.72	0.95	1.18	1.41	1.64	1.87	2.10	2.33	2.56	2.80
Bulgaria	0.01	0.01	0.01	0.03	0.05	0.07	0.10	0.12	0.14	0.16	0.18	0.20	0.22	0.24	0.26
Croatia	0.00	0.01	0.00	0.03	0.06	0.08	0.11	0.14	0.16	0.19	0.22	0.24	0.27	0.30	0.32
Cyprus	0.01	0.01	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12	0.13
Czech Rep.	0.03	0.03	0.03	0.09	0.15	0.21	0.27	0.33	0.39	0.45	0.52	0.58	0.64	0.70	0.76
Denmark	0.17	0.17	0.18	0.28	0.39	0.49	0.59	0.70	0.80	0.91	1.01	1.12	1.22	1.33	1.43
Estonia	0.00	0.01	0.00	0.02	0.03	0.04	0.05	0.06	0.08	0.09	0.10	0.11	0.12	0.14	0.15
Finland	0.04	0.03	0.03	0.10	0.17	0.24	0.31	0.38	0.45	0.52	0.59	0.66	0.73	0.80	0.87
France	0.07	0.07	0.07	0.99	1.91	2.84	3.76	4.68	5.60	6.52	7.45	8.37	9.29	10.21	11.14
Germany	0.18	0.18	0.18	1.19	2.21	3.22	4.23	5.24	6.26	7.27	8.28	9.30	10.31	11.32	12.33
United Kingdom	0.51	0.30	0.34	2.05	3.76	5.46	7.17	8.88	10.58	12.29	13.99	15.70	17.41	19.11	20.82
Greece	0.02	0.02	0.02	0.16	0.31	0.45	0.59	0.74	0.88	1.02	1.17	1.31	1.46	1.60	1.74
Hungary	0.01	0.02	0.01	0.04	0.07	0.10	0.13	0.17	0.20	0.23	0.26	0.29	0.32	0.35	0.38
Ireland	0.04	0.05	0.06	0.28	0.51	0.73	0.96	1.18	1.41	1.63	1.86	2.08	2.31	2.54	2.76
Italy	0.04	0.03	0.03	0.51	0.98	1.45	1.92	2.40	2.87	3.34	3.81	4.29	4.76	5.23	5.71
Latvia	0.00	0.00	0.00	0.01	0.02	0.03	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.12	0.13
Lithuania	0.00	0.00	0.00	0.05	0.09	0.13	0.17	0.21	0.26	0.30	0.34	0.38	0.43	0.47	0.51
Luxembourg	0.01	0.02	0.02	0.10	0.17	0.25	0.32	0.40	0.47	0.55	0.63	0.70	0.78	0.85	0.93
Malta	0.00	0.00	0.00	0.01	0.01	0.02	0.02	0.03	0.03	0.04	0.04	0.05	0.05	0.06	0.06
Netherlands	0.04	0.04	0.04	0.40	0.76	1.12	1.48	1.83	2.19	2.55	2.91	3.27	3.63	3.99	4.34
Poland	0.05	0.06	0.06	0.19	0.33	0.46	0.59	0.73	0.86	1.00	1.13	1.26	1.40	1.53	1.66
Portugal	0.02	0.02	0.02	0.08	0.14	0.20	0.26	0.32	0.38	0.45	0.51	0.57	0.63	0.69	0.75
Romania	0.03	0.02	0.02	0.09	0.16	0.23	0.29	0.36	0.43	0.49	0.56	0.63	0.69	0.76	0.83
Slovakia	0.01	0.01	0.01	0.06	0.10	0.15	0.20	0.25	0.30	0.34	0.39	0.44	0.49	0.54	0.58
Slovenia	0.00	0.00	0.00	0.04	0.08	0.11	0.15	0.19	0.22	0.26	0.30	0.33	0.37	0.41	0.44
Spain	0.05	0.05	0.04	0.44	0.83	1.23	1.62	2.02	2.42	2.81	3.21	3.60	4.00	4.39	4.79
Sweden	0.02	0.02	0.02	0.26	0.51	0.76	1.00	1.25	1.49	1.74	1.98	2.23	2.47	2.72	2.96
Total	**1.49**	**1.29**	**1.31**	**7.96**	**14.60**	**21.24**	**27.89**	**34.53**	**41.17**	**47.82**	**54.46**	**61.10**	**67.75**	**74.39**	**81.03**

Source: Private postal operators' data and EY analysis

Table 34 shows combined private and designated postal operators' small consignments receipts from outside the EU.

Table 34: Total international receipts of small consignments originating from outside the EU (millions items)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Weighted averages (Non-EU proportion is fixed at 26% for the majority of Member States; Base low value proportions (71%); small parcels passing through the letter stream 1:8)															
Base	29.78	25.70	26.24	30.57	40.83	49.62	67.39	65.20	74.48	84.48	89.84	97.39	99.47	105.15	114.85

Source: EY analysis

Annex P – Qualitative feedback from LVCR affected businesses across EU

Seventy nine business associations were contacted across the EU to discuss the extent to which they considered their members had been affected by the LVCR. The full list of business associations contacted is shown in the table below.

Table 35: Impact of the LVCR on respondents

Country	Stakeholders contacted	Response
Austria	▪ Austrian Economic Chambers ▪ Federal Industrial Division of Chamber of the Economy ▪ The Association of Austrian Clothing Industry ▪ Association of the paper industry ▪ Association of the textile, clothing, footwear and leather industry	▪ The Association of textile, clothing, footwear and leather industry responded, but did not have any information on this. The trade association representing the retail trade with textiles and garments was also contacted, who confirmed they did not have any complaints from members regarding the. ▪ No response from other stakeholders.
Belgium	▪ Federation of enterprises in Belgium ▪ Creamoda (Trade association of the clothing and fashion industry) ▪ Comeos (Trade association for commerce and services) ▪ Fetra (Federation for paper manufacturers)	▪ No response from any stakeholders.
Bulgaria	▪ Bulgarian Retail Association ▪ Association for Modern Trade ▪ Bulgarian Chamber of Commerce and Industry ▪ Bulgarian association of apparel and textile producers and exporters ▪ Bulgarian association for information technologies	▪ No response from any stakeholders.
Croatia	▪ Croatian chamber of economy	▪ Response confirming they had no information from members on the impact of the LVCR.
Cyprus	▪ Cyprus Chamber of Commerce and Industry	▪ No response from any stakeholders
Czech Republic	▪ Czech Chamber of Commerce ▪ Association for Czech opticians and optometrists ▪ Association for SMEs	▪ Response from association for Czech opticians and optometrists confirming no members have submitted complaints about the LVCR.

Country	Stakeholders contacted	Response
	▪ Association for clothing and leather industry	▪ No response from other stakeholders.
Denmark	▪ Danish Chamber of Commerce ▪ Dansk Fashion and Textile ▪ Association for SMEs	▪ Response from Association for SMEs confirming no members have submitted complaints about the LVCR. ▪ No response from any stakeholders.
Estonia	▪ The Estonian Chamber of Commerce and Industry	▪ No response from any stakeholders
Finland	▪ Elinkeinoelämän Keskusliitto EK ry (Confederation of Finnish Industries) ▪ Kaupan litto (Finnish Commerce Federation) ▪ Finatex (Association for the clothing industry) ▪ Association for the technology industry	▪ Response from Confederation of Finnish Industries. ▪ No response from other stakeholders.
France	▪ MEDEF (Association for businesses) ▪ CGPME (Association for SMEs) ▪ Conseil du Commerce de France ▪ FEVAD (E-commerce) ▪ French Chambers of Commerce and Industry ▪ Mode a Paris (Association for fashion and clothing)	▪ No response from any stakeholders.

Country	Stakeholders contacted	Response
Germany	▪ German Chamber of Commerce ▪ VDMD (Association for textiles and clothing) ▪ IKW (Association for Cosmetics) ▪ Borsenverein des Deutschen Buchhandels (Association of Booksellers)	▪ Response from German Chamber of Commerce confirming that none of their members were relevant to our study. ▪ Response from Association of Booksellers. See below for more information. ▪ No response from other stakeholders.
Greece	▪ Hellenic Retail Business Association ▪ Greek E-commerce Association ▪ Greece Chambers of Commerce ▪ Hellenic Clothing Association ▪ Association for Pharmaceutical companies	▪ No response from any stakeholders.
Hungary	▪ HITA (Hungarian Investment and Trade Agency) ▪ MKIK (Hungarian Chamber of Commerce and Industry) ▪ KISOSZ (National Federation of Traders and Caterers) ▪ SZEK (Association for e-commerce)	▪ Response from Hungarian Investment and Trade confirming they had no information on the LVCR. ▪ No response from other stakeholders.
Ireland	▪ Retail Ireland ▪ ISME (Irish Small and Medium Enterprises Association)	▪ No response from any stakeholders.
Italy	▪ Associazione Italiana Commercio Elettronico (AICEL) ▪ Confcommercio	▪ Response from AICEL saying they will contact the relevant department. Follow up resulted in no more responses. ▪ No response from other stakeholders.
Latvia	▪ Latvian Chamber of Commerce and Industry ▪ Latvijas Tirgotāju Asociācija (Latvian Traders Association)	▪ No response from any stakeholders.
Lithuania	▪ Lietuvos Prekyba (Association of the Lithuanian Trade Entities) ▪ LTPA (Lithuanian Direct Selling Associatio)	▪ No response from any stakeholders.
Luxembourg	▪ Chambre de Commerce ▪ Confédération Luxembourgeoise du Commerce	▪ Response from Chambre de Commerce confirming they hold no information on the LVCR.

Country	Stakeholders contacted	Response
Malta		
Netherlands	▪ Confederation of Netherlands Industry and Employers	▪ No response from any stakeholders.
Poland	▪ Polish Association of Trade and Distribution ▪ Forum Przewoźników Ekspresowych	▪ No response from any stakeholders.
Portugal	▪ APED - Associação Portuguesa de Empresas de Distribuição (Association of Retail and Distribution companies) ▪ APIFARMA: Association of pharmaceutical companies ▪ ARESP - Associação da Restauração e Similares de Portugal (Association of restaurant and catering companies) ▪ Associação das PME - Pequenas e Médias Empresas de Portugal (Small size companies association) ▪ APEL - Associação Portuguesa de Editores e Livreiros (Association of book editors) ▪ ANTRAM - Associação Nacional de Transportes Públicos e de Mercadorias (Association of public and good' transports)	▪ No response from any stakeholders.
Romania	▪ ANEIR-CPCE (Association of Exporters and Importers of Romania) ▪ Association of Autovehicle Producers and Importers of Romania	▪ No response from any stakeholders.
Spain	▪ CEOE (Confederation of Spanish Industries)	▪ No response from any stakeholders.
Slovakia	▪ Slovakia Chambers of Commerce	▪ No response from any stakeholders.

Country	Stakeholders contacted	Response
Slovenia	▪ Gospodarska zbornica Slovenije (Chamber of Commerce and Industry of Slovenia) ▪ Obrtno-podjetniška zbornica Slovenije (Chamber of Craft and Small Business Slovenia)	▪ No response from any stakeholders.
Sweden	▪ Svenskt Naringsliv (Stockholm Chamber of Commerce)	▪ No response from any stakeholders.
United Kingdom	▪ British Retail Consortium ▪ Retailers Against VAT Avoidance Schemes (RAVAS)	▪ Response from RAVAS. See below for more information. ▪ No response from other stakeholders.
Other contacts	▪ Dutch Retail Organisation ▪ European Booksellers Federation ▪ DG MARKT ▪ Cross Border Research Association	▪ Response from Cross Border Research Association. Discussion on their de-minimis study with industry.

Source: EY analysis

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