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Logistics Reform for Low-Value Shipments

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LOGISTICS IN THE GLOBAL MARKETPLACE

Facilitating trade is essential for countries that aspire to compete in the global economy. Low transactions costs, speed, and predictability are all ingredients of a good logistics system. The payoff is large. According to a World Bank (2010) evaluation of nearly 155 countries, improving logistics for countries at the same level of per capita income can increase GDP by 1 percent and two-way merchandise trade by 2 percent.[1]

Sharp reductions in tariffs and quotas have propelled dramatic growth in trade over the past seven decades.[2] But a persistent set of trade barriers often overlooked are the frictions associated with trade logistics. In many countries logistics costs—time and money costs incurred to clear onerous regulations and paperwork—are greater deterrents to trade than remaining tariffs.[3] Some economists estimate that enhanced trade facilitation, broadly defined as improvements in services infrastructure, port efficiency, customs environment, and regulatory environment, could increase annual global manufactured exports by as much as $400 billion (table 1).[4]

Even while negotiations in the Doha Development Round are stalled, some countries are unilaterally implementing reforms to improve their logistics systems. As the leading example, Germany implemented a Freight Transport and Logistics Masterplan in 2008 and subsequently earned the highest rank in the 2010 World Bank Logistics Performance Index (LPI). Sweden and Finland, which ranked 3 and 12 respectively, pursued similar strategies. A few other rich countries have also improved their LPI rankings, notably Luxembourg, which improved from 23 in 2007 to 5 in 2010. Compared with other high-income countries, the United States has a relatively low LPI ranking of 15 (down from 14 in 2007) and lags in reducing logistics barriers. By contrast, even a few low-income member countries of the Asia-Pacific Economic Cooperation (APEC) forum, such as Vietnam, have developed ambitious action plans to cut their logistics costs.[5]

An evaluation of US components within the Logistics Performance Index suggests key areas for improvement. The United States received respectable rankings for three out of the six key indicators—infrastructure (7), logistics competence (11), and tracking and tracing (5). However, it received low scores for the remaining indicators—customs (15), timeliness (16), and ease of arranging international shipments (36) (see tables 2 and 3 for further detail).[6]

1. The Logistics Performance Index is the average of each country's scores (on a scale of 1 to 5) on six key measures of trade facilitation: (1) efficiency of the customs clearance process, (2) the quality of trade and transport-related infrastructure, (3) the ease of arranging competitively priced international shipments, (4) competence and quality of logistics services, (5) ability to track and trace shipments, and (6) timeliness of shipments in reaching the destination.

2. See Bradford, Grieco, and Hufbauer (2005), and Adler and Hufbauer (2009).

3. See Hummels (2007, 2009), Fremont (2009), and Ikenson (2008).

4. For details, see Hufbauer, Schott, and Wong (2010) and Wilson, Mann, and Otsuki (2005).

5. Vietnam is now an LPI overperformer relative to its income level, with a rank of 53.

6. "Customs" measures the efficiency of the customs clearance process, such as speed, simplicity, and predictability of border control agencies, a category that includes the US Customs and Border Protection agency. "Timeliness" evaluates the frequency with which shipments reach their destination within the scheduled or expected time. "International Shipments" ranks the ease of arranging competitively priced shipments.

A closer look at the index suggests several reasons for relatively low US logistics performance scores. The US clearance time for physical inspection is over two days, at least a day longer than competitive, high-income countries such as Chile, Hong Kong, Japan, the Netherlands, and Singapore. The United States does not score well in price competitiveness. Specifically, the typical charge for handling a 40-foot import container is nearly $1,500 in the United States, compared with $335 in Singapore, $869 in Australia, and $707 in the Netherlands. The US costs for handling a typical 40-foot export container are also consistently higher than other countries (see table 4).

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The United States is no star when it comes to logistics. Overall the country lags in trade facilitation to its own detriment as a competitor in the global marketplace.

BARRIERS TO LOW-VALUE SHIPMENTS

In this policy brief, we focus on two barriers that specifically hamper low-value shipments. The first barrier is an unduly restrictive *de minimis* exemption from customs duty for low-value imports. The second barrier is an unduly low "Informal Entry" threshold, the dividing line that determines whether the shipment requires just a little paperwork or a lot of paperwork to clear the entry process.

It is important to emphasize that raising these value thresholds would not undermine US security at the border: Full manifest detail and prearrival information is required for all shipments, regardless of declared value.[7] Rather, by raising the threshold for low-value shipments, US Customs and Border Protection (CBP) could expedite commerce and focus its limited resources on security procedures. CBP has recently tightened its security requirements—notably by implementing the 10+2 Import Security Program and bringing forward the 2013 deadline for 100 percent cargo screening. These measures are entirely distinct from the low-value thresholds for customs purposes addressed in this policy brief—but raising the low-value thresholds will free up resources for the security agenda.[8] In fact, the resources that can be freed up are located not only in CBP but also in the express shipping firms (DHL, FedEx, TNT, and UPS) and the US Postal Service (USPS). Employees will need to spend much less time on arcane customs forms and small amounts of revenue and instead can spend much more time on important matters like counterfeit merchandise, illegal drugs, food safety, and of course terrorist threats.

DE MINIMIS EXEMPTION

Historically, the *de minimis* threshold for duty-free shipments (mainly air cargo) is intended to achieve a balance between the costs of assessing and collecting customs duty and the revenue raised. *In our view, the threshold for the de minimis exemption should also take into account the costs that express firms and the USPS incur in processing entries and the value to purchasers (business firms and households) of faster delivery.* While a higher *de minimis* exemption might reduce government revenue, it will also cut overall compliance costs, reduce delivery times, and encourage low-value imports, especially direct purchases by consumers and small business firms from foreign suppliers. Moreover, as just mentioned, it will free up resources to deal with more important security and product safety issues.

Reflecting solely the balance between revenue lost and costs avoided, the Organization for Economic Cooperation and Development (OECD 1997) recommends that its members consider expanding their tax- and duty-free thresholds to simplify the arrival of low-value shipments, especially when the administrative cost to government alone exceeds the tariff revenue. In our view, the OECD recommendation should be amplified to consider the entire range of costs—those incurred by express firms and postal services, as well as the time value of faster delivery to customers.

7. Full manifest requirements include description of goods, country of origin, shipper's name and address, customs value and ultimate destination, and recipient's name and address. Electronic prearrival information for air carriers is detailed at 19 CFR 122.48a; these data differ slightly from full manifest data, although "prearrival manifest data" are commonly used as a reference to the full manifest data required under 19 CFR 122.48a. Prearrival data requirements for vessels and ground carriers are detailed at 19 CFR 4.7a.

8. The 10+2 Import Security Program requires 10 data elements, including reporting at the lowest bill of lading level, by the importer or the importer's agent 24 hours in advance of lading for ocean vessel shipments. The program also requires reporting two additional data elements: the vessel stow plan and container status messages. Importers can face fines up to $5,000 for each violation. Following a recent terror incident involving a US-bound cargo flight from Yemen, the US Transportation Security Administration (TSA) proposed to accelerate the initial deadline for completing 100 percent screening on cargo transported by passenger aircraft bound for the United States from 2013 to December 2011. However, the ruling is not final, and to implement this requirement for international inbound air cargo, TSA would need to complete bilateral agreements with originating countries. See Edmonson (2010); Department of Homeland Security, "Fact Sheet: New Cargo Security Requirements for Maritime Carriers and Importers," press release, November 24, 2008; and TSA, Certified Cargo Screening Program Overview, available at www.tsa.gov (accessed on March 19, 2011).

As figure 1 shows, within the Asian part of the APEC region, the *de minimis* threshold is a good barometer of the LPI. Countries with higher *de minimis* exemption levels tend to have better LPI scores (the correlation coefficient is 0.6). *De minimis* reform can be a harbinger of broader improvements in customs facilitation.

US Statutory Authority on *De Minimis* Entries

What about the US *de minimis* threshold? In accordance with provisions under Section 321 of the Smoot-Hawley Tariff Act (1930), as amended in 1993 under the Customs Modernization Act, the US Congress established the statutory basis for duty-free entry by individual purchasers for their personal use at a level of *not less* than $200.[9] The same threshold applies to goods imported through USPS. The US Customs and Border Protection can make an exception to the $200 threshold if it believes that the shipment was covered under a single order or contract but was broken into smaller shipments for the "express purpose of securing free entry" or otherwise avoiding compliance with pertinent laws or regulations.[10] Other exceptions include licensed goods (such as pharmaceuticals), textiles, alcohol, and tobacco.

A higher *de minimis* exemption might reduce government revenue, but it will also cut overall compliance costs, reduce delivery times, and encourage low-value imports....

In May 2010, Representative Bill Owens (D-NY) introduced the Customs De Minimis Adjustment Act of 2010 (HR 5375), which proposed to raise the *de minimis* level to $1,000.[11] The act did not pass with the result that the *de minimis* threshold has not been raised in the 18 years since it was introduced in 1993. According to inflation data published by the Bureau of Labor Statistics, a merchandise item that cost $200 in 1993 would cost nearly $305 in 2011. Thus, raising the *de minimis* level to $300 would simply bring the threshold in line with inflation. In April 2011, Representative Aaron Schock (R-IL), together with Representatives Owens (D-NY) and Joseph Crowley (D-NY) introduced a new bill (HR 1653) to raise the *de minimis* level to $1,000 and the Informal Entry level (explained later) to $2,500.

An important anomaly deserves attention. A traveler entering the United States can bring $800 of merchandise without payment of duty. Yet if the same traveler asks a shop abroad to mail one of her purchases to her home in Nebraska, the duty-free limit will be just $200, set by the current *de minimis* threshold. This difference in customs treatment, and the added hassle factor, means that the traveler will carry most purchases in her personal luggage—often a big inconvenience and a deterrent to international commerce.

Under the Code of Federal Regulations (CFR) Title 19 Customs Duties, the Secretary of the Treasury has some flexibility to regulate the value of imports that may be admitted free of duties and taxes, another description of the *de minimis* exception. Specifically, 19 USC §1321(a)(2)(C) and 19 CFR § 10.151 authorizes the Secretary of the Treasury to regulate the *de minimis* threshold so as to "admit articles free of duty and of any tax imposed on or by reason of importation" as long as that value is "not less than $200." In other words, the secretary has the authority to raise the *de minimis* threshold from the current $200.

Volume and Value of *De Minimis* Entries

De minimis entries by express firms now amount to roughly 31 million per year, with an annual declared value around $480 million (table 5). The Peterson Institute recently conducted a survey of express shipping firms to ensure comparability across firms, the CBP, and over time.[12] Our survey suggests that 48 types of merchandise would benefit by raising the *de minimis* threshold from $200 to $800 (table 6). The current number of express firm entries in this range ($200 to $800) is roughly 3.8 million per year, with a declared value around $1.7 billion per year. We believe that the USPS also handles about the same number of entries per year in the $200 to $800 range, again

9. PL 103-182 (December 8, 1993) and Section 321(a) (2)(C) of the Tariff Act of 1930, as amended, (19 USC §1321(a)(2)(C)). Under the statute, the *de minimis* level is set at *not less* than $200. However, CBP regulations at 10 CFR 10.151 provide for release free of duty, tax, etc. for entries "not *over* $200" [emphasis added]. While the operational result is the same, the regulations could be misinterpreted to mean that the statute limits *de minimis* shipments to $200 or less, when in fact the $200 figure is a minimum value and a higher threshold is authorized by the statute. Note that CBP reserves the right to require a Formal Entry for any *de minimis* importation if there are grounds for concern, including missing documents, such as an invoice or bill of sale, that typically accompany the item.

10. 19 CFR 10.151 Importations not over $200.

11. HR 5375 did not include a proposal to raise the Informal Entry threshold or narrow the exceptions to the existing threshold of $2,000, both subjects discussed later in this policy brief. While that legislation did not pass, Congressman Owens reiterated his support in a letter sent to the US Treasury Department in March 2011.

12. The survey collected standardized data regarding hourly salary, productivity rates, volume and value of shipments, paperwork costs, and illustrative merchandise items that would benefit from raising *de minimis* and informal threshold levels.

with a declared value of around $1.7 billion.[13] However, the number and value of express firm and USPS entries in the $200 to $800 range could expand substantially if the *de minimis* threshold was lifted. We return to this point later.

We asked CBP about the number of actual and potential *de minimis* entries; CBP responses are reported as memorandum items in table 5. We believe that CBP figures substantially understate the volume of entries, possibly because no customs revenue is collected on the majority of low-value shipments in this value range.

Raising the *De Minimis* Threshold: Estimated Impact on Revenue and Costs

Raising the *de minimis* threshold would reduce customs duties collected but it would also reduce costs, not only for CBP but also for all parties in the delivery chain.[14] According to an unpublished Congressional Budget Office (CBO) estimate, prepared for Congressman Owens, the revenue forgone associated with raising the *de minimis* threshold from the current level of $200 to $1,000 would be $37 million in 2011, rising to $44 million in 2016 and $49 million in 2020.[15] At the same time, a higher threshold would create opportunities to expedite customs procedures, reduce paperwork, and increase CBP productivity—all benefits that were apparently not scored by the CBO. A higher threshold would also lower handling costs for express shipping firms and USPS and enable faster delivery to US firms and households.

The CBP has under way a cost accounting study that will assess the savings that could result to CBP alone from raising the *de minimis* threshold. However, CBP cannot disclose its methodology or findings prior to publication of the study in the Federal Register. The projected date of publication is unknown. Accordingly, we attempted our own estimates of the cost savings, not only to CBP but also to private express firms and USPS, and the time value of faster delivery to ultimate customers (business firms and households). Our calculations are summarized in table 7A**.** Here we walk through the methods we used to construct the estimates.

First, we estimate the value of faster delivery to purchasers (business firms and households). Officials too often ignore this value when they set *de minimis* thresholds, and we think it deserves to be highlighted. Using estimates by David Hummels (2001, 2007), explained in box 1, we believe that the time cost to purchasers is approximately 0.4 percent of the declared value of an entry for each day of delay. From our review of the associated paperwork, we think a conservative estimate of the additional time burden on the seller, the express firm or USPS, CBP, and the ultimate purchaser of an entry above the *de minimis* level is between an extra half-day and an extra full day. Much of this is time spent on investigating the relevant customs schedule, correctly filling out paperwork, dealing with a customs broker, and collecting the goods and paying customs duty upon delivery. Perhaps on the high side, we assume an extra full day is required on average for an entry above the *de minimis* threshold.

The distribution in figure 2 indicates that the number of entries falls sharply as the declared value per entry rises. Accordingly, we also assume that the average value of an entry in the $200 to $800 range is around $300 per entry, so the value of the time saved by purchasers works out to roughly $1.20 per entry ($300 times 0.4 percent). The implication is that, for 3.8 million shipments in the $200 to $800 range handled by express firms, plus a similar volume of shipments in that range handled by USPS, the time value to customers from raising the *de minimis* threshold is around $9 million annually (table 7A).

Second, we estimate the value of time saved by express firms and USPS—in terms of personnel and costs avoided for processing a *de minimis* entry—in the declared value range of $200 to $800. As we elaborate later, shipments in the $200 to $800 range are currently typically "Informal Entries"—i.e., requiring filling out CBP Form 7501, a formidable document with instructions running to 32 pages and one that calls for numerous details about the merchandise. Combining multiple shipments onto one Informal Entry creates a document that is many pages long. Form 7501 must be stored for five years. If the *de minimis* threshold is raised to $800, these Informal Entry shipments would become *de minimis* items, thus saving express firms approximately $32 million per year from reduced processing and paperwork (table 7A). The processing and paperwork burdens on USPS may be somewhat less, because of favorable provisions in the relevant regulations (discussed later), and we estimate that USPS would save three-fourths of what express firms would save, roughly $24 million annually (table 7A). Hence we estimate the total cost savings to express firms and USPS at around $56 million annually.

Third, we assume that CBP would save just one-fifth of the amount that express firms and USPS might save. Cost accounting estimates by CBP will eventually provide a better estimate than our guess, but our provisional estimate of the value of time saved by CBP personnel for processing *de minimis* entries, "erstwhile Informal Entries," in the declared value range of $200 to $800 is around $11 million annually (table 7A).

13. USPS declined to supply data for this policy brief.

14. Merchandise processing fees (MPF), explained later, are not collected on Informal Entries by express firms or USPS. Instead, express firms pay a fee to CBP for its services.

15. Updated estimates from CBO, unpublished, August 5, 2010.

Box 1 Trade facilitation: The cost of "time to trade"

Scholars and officials are beginning to recognize the significance of trade facilitation and the "time to trade." Administrative procedures related to exports and imports especially hinder the efforts of small and medium-sized enterprises (SMEs) to engage in the global marketplace. Delay acts as a de facto trade transaction tax. Pioneering research by David Hummels (2001) has translated each extra day in shipping time into a tariff-equivalent barrier, depending on the product. For example, for typical manufactured goods, each day in travel is worth 0.8 percent of the value of the good, equivalent to a 16 percent ad valorem tariff for an average ocean shipment of 20 days.[1]

Hummels (2001, 2007) evaluated the cost of time in trade for 59 products imported into the United States. While for some commodities, such as bulk goods, extra time has a minimal cost, for other products, such as clothing, extra time is very costly.[2] For machinery, the tariff-equivalent cost for transit time averages about 1.5 percent per day. One of the highest costs is found for office machinery: Each day in transit costs about 2.2 percent of the value of the shipment (Hummels 2001). Fast delivery times are likewise important for electronic goods, such as iPads and iPhones, and for fresh produce and flowers. Consumers will gladly pay more for fast delivery of time-sensitive merchandise.

Typical values lost by customers for each additional day of delay are shown in table 8. We estimate the average tariff equivalent of time in transit for select merchandise imports that could potentially benefit from a higher informal entry threshold at about 0.4 percent per day.

1. Other economic studies complement Hummels' work, finding that each additional day of delay for a product to reach its buyer reduces the volume of trade by about 1 percent on average. See Djankov, Freund, and Pham (2008).

2. Extra time in transit also acts as an inventory finance charge. The US-ASEAN Business Council estimates that for high-value, formal-entry merchandise (such as semiconductors), the extra time in transit—such as a two-day customs processing delay—could end up costing an importer an extra $11,000 per year in financing charges (calculated at an interest rate of 10 percent) if it received 200 shipments per year, with an average value of $100,000 per shipment. See Oxford Economics (2009).

Finally, we estimate the customs revenue forgone if the *de minimis* threshold is raised to $800. As mentioned, the CBO estimated that raising the *de minimis* threshold to $1,000 would incur a revenue loss of $37 million in 2011. The underlying assumptions were not explained in the CBO spreadsheet, so we have checked this estimate against our own data. Based on the average value of an entry of about $300, the rough average of total US customs import duties expressed as a percent of imports (1.2 percent) and the tariff data for identified merchandise in table 6 (4.1 percent), we estimate that the representative average *ad valorem* tariff rate for entries in this value range is 2.6 percent.[16] Based on these figures, we estimate the customs duty loss at about $59 million annually. This is calculated as 7.6 million entries for express firms and USPS combined times 2.6 percent (the estimated average customs duty rate) times $300 per entry.[17]

It is worth emphasizing the pure paperwork costs of handling Informal Entries in the $200 to $800 range, which in our proposal become *de minimis* entries. Table 7B summarizes these paperwork costs, which are a significant part of the overall costs that could be avoided by raising the *de minimis* threshold to $800. Our survey of express firms indicates that paperwork alone requires about 9.2 minutes per entry (0.15 hours). The hourly salary for express firm personnel who handle these shipments is about $16 and fringe benefits (health, pension, etc.) add another 30 percent, making all-in labor costs around $21 an hour. We assume that the costs to USPS are pretty much the same. In addition, express firms pay about $1 million a year to store the required forms. Hence the cost of pure paperwork incurred by express firms and USPS for handling Informal Entries in the $200 to $800 range works out to around $25 million a year. The CBP all-in labor costs are around $34 per hour, but CBP probably spends much less time to handle Informal Entries, possibly one-fifth the time of express firms

16. In making this calculation, we assume that entries of merchandise not identified in table 6 are approximately equal to those identified and that the merchandise not identified pays a tariff rate near the average for all US imports, namely 1.2 percent.

17. In principle, an entry above the *de minimis* level is also subject to an MPF. However, express firms and USPS pay reimbursable fees to CBP for services rendered, in lieu of the MPF per entry, on all entries valued not more than $2,000. When the MPF is actually collected under 19 USC 58c (a)(9)(A)(B)(i) and 19 CFR 24.23, the fee for an Informal Entry is $2 per entry if the entry is electronic, or $6 per entry if a paper entry and the paperwork is not prepared by Customs, or $9 per entry if the paperwork is prepared by Customs.

and USPS (less than 2 minutes per entry). If these assumptions are correct, CBP may incur paperwork costs of $8 million a year. All told, the pure paperwork costs mount up to $33 million a year (table 7B). Avoiding paperwork would be the major part of the overall cost savings reported in table 7A.

To summarize the calculations in tables 7A and 7B, we find that the net gain from raising the de minimis threshold on the existing volume of shipments would be about $17 million, taking into account the cost savings to all affected parties—customers, express firms, USPS, and CBP. In other words, the loss of tariff revenue would be more than offset by the savings to the multiple parties in the delivery chain. Moreover, as we now discuss, raising the de minimis threshold would open the gates to a substantial increase in the volume of commerce.

Potential Growth in Low-Value Commerce

E-commerce—both business-to-business (B-to-B) and business-to-consumer (B-to-C)—is growing by leaps and bounds, especially within national borders. In the United States, e-commerce is rising around 10 percent annually, compared with less than 3 percent for all retail sales, and now accounts for around 7 percent of the shopping dollar.[18] According to Goldman Sachs, B-to-B e-commerce will in the long run increase the level of GDP by 5 percent. International e-commerce is also expanding but remains a very small part of international trade in goods and services. The expansion could be much greater if border frictions were reduced. Raising *de minimis* thresholds would clearly help. Later in this policy brief, we examine the treatment of low-value shipments within the APEC region. To preview our discussion, the reforms we advocate would materially enlarge the volume of trade between APEC countries. As a consequence, more jobs would be created, especially among small and medium-sized enterprises (SMEs) that are just breaking into international markets. Possibly the biggest payoff from raising *de minimis* thresholds in the United States and APEC would be the spur to new commerce in the years ahead.

Risk of Evasion?

What about evasive misuse of a higher *de minimis* threshold? A study commissioned by the Australian government, when it considered the merits of raising the *de minimis* level, concluded that administrative efficiency savings outweigh the risk of increased evasion through mislabeling and other means. Box 2 describes Australia's and New Zealand's recent experience with raising the *de minimis* threshold.

In September 2009, the Conference of Asia Pacific Express Carriers (CAPEC) evaluated the benefits of maintaining the A$1,000 *de minimis* level in Australia. CAPEC noted that, in real terms adjusted for inflation, the *de minimis* level should be higher, equivalent to $A1,268. In addition, CAPEC argued that a reduction in the current *de minimis* threshold would require businesses to formally import more. As a result, business costs would increase but the Australian government would not gain additional goods and services tax (GST) revenue as any GST collected would be paid back to businesses through an input tax credit. CAPEC also pointed out that proposals to reduce the *de minimis* threshold should consider other new costs that would be imposed on business firms, such as higher customs clearance charges, which could represent up to 21 percent of the total import value, and significant costs for handling, storing, and processing imports.

The biggest payoff from raising *de minimis* thresholds in the United States and APEC would be the spur to new commerce in the years ahead.

INFORMAL ENTRY PROCEDURES

A different but related provision is the threshold for so-called Informal Entries of merchandise—namely simplified reporting forms that can normally be handled by the customer/shipper, possibly with some assistance from an express shipping firm, but without the need to engage a customs broker. A higher Informal Entry threshold does not mean lower customs duties; it simply means less paperwork to collect the duties that are owed. Raising the Informal Entry threshold could yield several benefits. It would free CBP personnel to focus on security issues and other high-risk concerns; reduce delays in delivering mail and cargo; and lower the cost to households, business firms, express shippers, and USPS of importing low-value items.

Based on our survey of express firms, we prepared a list of some 58 merchandise items that would benefit if the Informal Entry threshold is raised to $2,500 from the current $2,000 (table 9). Informal Entries now number about 5 million entries per year.[19] If the Informal Entry threshold was raised

18. "E-Commerce Growth Slows, But Still Out-Paces Retail," *Wall Street Journal*, March 8, 2010.

19. The 5 million figure includes "exceptions"—i.e., restricted merchandise items with a value under the $2,000 threshold that must be entered under the Formal Entry list (see table 11 and 19 CFR 143.21(a)).

Box 2 Experience of Australia and New Zealand with the *de minimis* threshold

The New Zealand Customs Service recently commissioned a report that evaluated an increase in the *de minimis* threshold from the present level, NZ$400, to either NZ$650 or NZ$ 1,000. The report concluded that the NZ$650 threshold would forgo tariff revenue of NZ$10 million annually, while a NZ$1,000 threshold would forgo revenue of NZ$24 million. The New Zealand Customs Service claimed that these estimates of tax revenue forgone would exceed the combined compliance and administration costs of collecting duties, but the report did not comment on savings by private express firms, the postal service, or the advantage to New Zealand buyers.

If New Zealand decided to raise the *de minimis* threshold, the New Zealand Customs Service claimed that its electronic cargo information and import entry processing fees (currently about NZ$22 per shipment) would need to be raised to ensure cost recovery. However, New Zealand Customs concluded that a higher *de minimis* threshold would allow it to better shift resources toward an intelligence-driven risk management approach for international shipments.

Before raising the *de minimis* level to A$1,000 in 2005, the Australian Industry Commission estimated that a higher threshold would generate administrative efficiency savings of up to A$12 million and concluded that the "risk of increased evasion is likely to be a minor problem." In December 2010, the Australian Productivity Commission launched an investigation into concerns raised by the Australian retail industry, such as the purchase of items online from overseas vendors below the *de minimis* level and subsequent resale to other consumers. The Productivity Commission is expected to report its findings to the Australian government in November 2011.

to $2,500, an additional 0.5 million entries per year could use this process (table 10).

Statutory and Regulatory Guidance

In 1998, under the statutory powers of 19 USC §1498, the Informal Entry threshold was set at $2,000.[20] Entries with a value above the $2,000 threshold, so-called Formal Entries, entail significant paperwork costs both to shippers and the government. Moreover, as table 11 shows, the $2,000 threshold provision has numerous exceptions; by our count these exceptions cover about 1,171 tariff lines that describe restricted items, such as leather articles, which are prohibited from using the Informal Entry path.[21]

At one time, CBP attempted to reduce the number of restricted merchandise items that are denied the benefit of Informal Entry. In CBP parlance, these restricted items are called "exceptions," and exceptions to the exceptions are called "exemptions,"[22] Despite CBP efforts, however, many exemptions from the exceptions were later withdrawn. For example, in 1989, CBP (then the US Customs Service) allowed an exemption for certain noncommercial shipments. This exemption was inexplicably deleted when the Formal Entry list was updated in 2001. As a result, these noncommercial shipments were again suddenly subject to Formal Entry requirements.[23]

The Customs Modernization Act gave authority to the Secretary of the Treasury to direct CBP (then the US Customs Service) to increase the value limit for Informal Entries up to $2,500. Yet, since 1998, the Informal Entry threshold has not been raised. In fact, the secretary has not even used his authority to adjust the Informal Entry threshold for inflation, even though a merchandise item that cost $2,000 in 1998 would cost nearly $3,000 in 2011 prices.[24] Under the statutory authority of 19 USC § 1498(a)(1)(A) and § 1498(b)(2), and in conjunction with changes in customs regulations § 143.21(a), the secretary could also slash the number of "exceptions" for restricted merchandise items that are denied the benefit of Informal Entry. However,

20. 19 USC §1498(a)(1)(A).

21. See CBP Memo, TBT-09-007 Amendment to Formal Entry Requirements for Textiles, June 10, 2009, available at www.cbp.gov; and 19 CFR 143.219(a), i.e., articles classified in Sections VII, VIII, XI, and XII; Chapter 94 and Chapter 99, Subchapters III and IV, Harmonized Tariff Schedule of the United States (HTSUS).

22. Restricted merchandise items ("exceptions"), which are valued under the Informal Entry threshold of $2,000, are subject to the Formal Entry requirements. See table 9 for a list of the restricted merchandise items.

23. In June 2009, CBP dropped exceptions for certain textile merchandise items—largely Chinese textile imports—that had been subject to Formal Entry requirements. The exceptions were dropped because the imports were no longer subject to quotas. The relevant CBP memo states that, "as a result of the elimination of quotas on merchandise from China entered into the United States after December 31, 2008, there is no longer a requirement to file a Formal Entry…." See CBP Memo, TBT-09-007 Amendment to Formal Entry Requirements for Textiles, June 10, 2009, available at www.cbp.gov.

24. The 2011 figure is based on the Bureau of Labor Statistics inflation calculator, which uses the average consumer price index for a given calendar year, available at www.bls.gov/data/inflation_calculator.htm.

the secretary has not used his authority to reduce the number of "exceptions" and Congress has not proposed legislation to amend the relevant customs regulation (e.g., § 143.21(a)).

Merchandise Processing Fees

As mentioned in a footnote earlier, with respect to Informal Entries, express firms and USPS pay reimbursable fees to CBP for services rendered, in lieu of the merchandise processing fee (MPF), on each shipment with a declared value not more than $2,000. The $1.00 fee applies to each individual air waybill or bill of lading with declared value not more than $2,000.[25] From these $1.00 payments, CBP receives 50 percent to defray costs, and the US General Account receives the remaining 50 percent as general revenue. The 50 percent paid to the US General Account does not appear to be consistent with the General Agreement on Tariffs and Trade (GATT), since no published study reveals the cost accounting used to establish the fee and since GATT permits a fee to offset the cost of customs services but not to supplement general revenues.[26]

In any event, while express firms and USPS do not pay the MPF on Informal Entries, they do pay the MPF on Formal Entries—any entry with a declared value above $2,000 plus entries of restricted merchandise (so-called exceptions) with a declared value below $2,000. The MPF was initially established under the Omnibus Budget Reconciliation Act of 1986 and was designed to collect revenues that would offset costs incurred by the Customs Service. Over the past 25 years, the initial MPF levels have been increased—but without the benefit of cost accounting to explain the higher fees. The Customs and Trade Act of 1990 amended the MPF schedule in an attempt to meet US obligations under the GATT.[27] Specifically, the Customs and Trade Act of 1990 added flat fees for Informal Entries ranging from $2 to $8 (now $2 to $9).

By comparison, for Formal Entries, the MPF is an ad valorem rate of 0.21 percent based on the import value of the merchandise, modified however by a schedule of minimum and maximum fees. The minimum fee is $25 for entries valued under $11,904, while the maximum fee is $485 for entries valued over $230,952. For example, the importer is only required to pay the maximum amount of $485 for an entry valued at $950,000, even though 0.21 percent of $950,000 would be $1,995. To date, there is no published cost accounting study that justifies either the 0.21 percent figure or the schedule of minimum and maximum fees. However, an entry valued at $2,001—in other words, just $1 above the $2,000 Informal Entry threshold—would pay the MPF of $25; by comparison, an Informal Entry of $2,000 or less, handled by an express firm or USPS, would pay no MPF.

Different Requirements for USPS and Express Firms

The 1993 Customs Modernization Act provided the US Customs Service (now CBP) with the legal authority to automate previously paper intensive, manually processed commercial operations (e.g., movement, clearance of cargo, and collection of revenue). To facilitate the cost of modernizing the US Customs Service, the Act shifted the legal responsibility for determining and assessing customs duties from the US Customs Service to the importer. Specifically, the importer was required to determine the correct value, classification, and rate of duty applicable to entered merchandise (Banks 1994). As automation became standard, many documents and records no longer had to be presented to CBP at the time of entry. Importers, however, must still retain these documents and be prepared to produce them when requested by CBP. The key document for Informal Entries is Form 7501, a document with 32 pages of detailed instructions. Failure to produce a requested document can result in a significant penalty. In practice, this means that express firms must act as "importers of record" and bear considerable record-keeping and financial responsibility for every entry they handle; these are burdens that USPS does not share.

Thus, while USPS confronts the same Informal Entry limit of $2,000, parcel post shipments handled by USPS face fewer record-keeping requirements than shipments handled by private express firms.[28] For example, according to a report requested by the House and Senate Appropriations Committees, private express shipping firms must satisfy 11 detailed customs regulations, while USPS need only satisfy two of those regulations (US Customs Service 1998). As a result, express shipping firms estimated, back in 1998, that they incurred significant costs, over $110 million annually, associated with US customs compliance requirements that do not apply to USPS (GAO 1998). Despite the creation of the automated customs clearance system in 1999,

25. See 19 USC 58c (b)(9)(A) (ii) and (b) (9)(B) and 19 CFR 128.

26. The $1 payment is also assessed on letters and documents.

27. GATT stipulates that fees on imports, such as MPF, should be "commensurate with the cost of services rendered" and import fees may not "represent an indirect protection to domestic products...or a taxation for... fiscal purposes." Canada and the European Community initiated a dispute in which they claimed the MPF schedule was excessive and improperly designed to raise revenues rather than cover costs. In November 1987, the GATT panel ruled in favor of Canada and the European Community. In response to the GATT ruling, the Customs and Trade Act 1990 added a fee schedule while maintaining the ad valorem rate. See GATT, Article II, 2(c) and Article VIII, l(a); and GAO (1994).

28. See CBP, Internet Purchases: Postal Service, Couriers and Freight, www.cbp.gov (accessed on March 5, 2011).

known as the Customs Automated Commercial System (ACS), express shipping firms are still required to submit paperwork to CBP, notably the Form 7501 together with manifest information. However, these documents are not required from USPS.[29]

Finally, it is worth pointing out that, unlike private express firms, USPS does not pay the MPF of $25 per shipment on Formal Entries (19 CFR 24.23[c](1)(v)).

Raising the Informal Threshold: Estimated Impact on Revenue and Costs

Raising the informal threshold would likely increase the flow of Informal Entries and associated duties collected. Revenue leakage—duties owed but not paid—is not a major problem with express shipments and there is no reason to think the problem would grow with a higher Informal Entry threshold.[30] On the other hand, raising the Informal Entry threshold would create administrative savings for CBP, express firms, and USPS; reduce paperwork; and enable faster delivery to US customers.

Table 12 summarizes our estimates of the cost savings and revenue loss associated with raising the Informal Entry threshold from $2,000 to $2,500 per entry and sharply curtailing the number of "exceptions" to the Informal Entry list (restricted merchandise with a declared value under $2,000). Currently, express firms handle about 0.7 million restricted entries per year. Optimistically, we assume that exceptions for restricted merchandise could be limited to alcohol, tobacco, and a few other items, with the result that perhaps 0.5 million entries annually handled by express firms could come off the exceptions list. In other words, about 70 percent of the "excepted" items that are currently on the restricted list might be delisted. A similar number of entries handled by USPS might also come off the restricted list. In total, perhaps 1 million entries per year could be freed from the burdens imposed by the "exceptions" classification. Based on these assumptions about the payoff from raising the Informal Entry threshold and narrowing the list of "exceptions," the following paragraphs walk through the estimates in table 12.

We start with the value to customers (business firms and households) of faster delivery through Informal Entry. Box 1 describes in detail how the value of time saved was calculated. We assume that Informal Entry procedures could save, on average, about two days in delivery time, compared with Formal Entry procedures. Based on our discussion with knowledgeable experts, when a new exporting firm asks an express firm to handle a Formal Entry, a great deal of time and effort is required to vet the shipper and the shipment, verify the Harmonized Tariff Schedule (HTS) tariff line and tariff rate, determine whether a preferential tariff applies, and secure a power of attorney for delivery of the goods. On the other hand, for an established exporting firm, most of this information is already on record. In our opinion, a large fraction of shipments just above the existing Informal Entry threshold—namely shipments in the $2,000 to $2,500 range—are likely to involve new exporting firms, generally SMEs. For that reason, we are comfortable with the assumption of an extra two days to handle a Formal Entry in this range, by comparison with an Informal Entry. Assuming an average value of $2,250 in the higher threshold range (between $2,000 and $2,500), and a tariff equivalent of 0.4 percent per day, the value of faster delivery to customers works out to about $18 per entry. For 1 million entries—express firms and USPS combined—the value to customers of faster delivery amounts to around $18 million annually (table 12).

Raising the Informal Entry threshold would create administrative savings for CBP, express firms, and USPS; reduce paperwork; and enable faster delivery to US customers.

Customers will also benefit from a sharp narrowing of the restricted merchandise list (the "exceptions"). As a very rough and conservative guess, we think the average value of this merchandise might be $300 per entry, and the combined total of express firm and USPS shipments could be 1 million entries per year. Again, assuming a tariff equivalent of 0.4 percent per day, and a two-day delay, the annual value of faster delivery of erstwhile restricted merchandise to customers would work out to about $3 million.

Express firms commit significant personnel and resources in preparing paperwork to meet Formal Entry requirements. The paperwork goes well beyond Form 7501 required for an Informal Entry. Moreover, while "liquidation" (i.e., final determination) of customs duties on Formal Entries normally takes place within a year, the period can be longer if so ordered by a court (which routinely happens in antidumping and countervailing duty cases). This means the file must be held open, requiring personnel time, for a much longer period than for an

29. ACS is designed to reduce clearance and process time by receiving and processing entry documentation electronically for imports arriving into the United States. Cargo carriers, custom brokers, and importers may use the ACS. However, express shipping firms are still required to complete and submit hard copies of official manifest documents. Paper manifests must include information such as country of origin; shipper's name and address; ultimate destination; and recipient's name and address.

30. A US Customs study indicates that the main source of revenue leakage is postal consignments, not express shipping firms. The same is true in Australia. See US Customs Service (1998) and JCPAA (1998).

Informal Entry.[31] Based on our survey, we estimate that express firms spend around $40 million annually both to meet Formal Entry requirements on 0.5 million entries within the range of $2,000 to $2,500 and to handle approximately 0.5 million "unnecessary" restricted items. Raising the informal threshold to $2,500 and narrowing the "exceptions" list might therefore save express firms about $40 million annually on filing, processing, and storing paperwork (table 12).[32] As a very rough figure, we guess that raising the Informal Entry threshold and narrowing the "exceptions" list might save USPS about half this amount, another $20 million annually (table 12).[33] All told, our calculations indicate savings for express firms and USPS of $40 million annually from raising the Informal Entry threshold to $2,500 and sharply narrowing the list of "exceptions."

Conservatively, we estimate that CBP faces an additional cost of $13 million to meet the Formal Entry requirements within the range of $2,000 to $2,500. This estimate is based on the MPF collected on Formal Entries, namely $25 per entry, times 0.5 million entries in the designated range, counting just express firms (table 12).[34] In addition, CBP faces costs to process low-value restricted merchandise ("exceptions") that must be formally entered. By our estimate, express firms handle about 0.7 million of these restricted entries annually, and perhaps 0.5 million (70 percent) could be freed from the burden of the "exceptions" classification. Again, based on the MPF collected, it appears that processing these "unnecessary" restricted items might cost CBP $13 million annually (0.5 million entries by express firms times $25 per entry).

On the revenue side, the minimum MPF rate for a Formal Entry is $25, and this figure applies to express firms (but not to USPS) both for entries valued at $2,000 and above and for entries of restricted merchandise. Since there are about 0.5 million entries annually with declared value between $2,000 and $2,500 (counting just express firms) and another 0.5 million entries of "unnecessary" restricted merchandise ("unnecessary" in terms of our assumption that 70 percent of "exceptions" could be delisted), the revenue loss from not collecting the MPF ($25 per entry) on 1 million entries works out to around $25 million (table 12).

To summarize the calculations in table 12, we find that the net gain from raising the Informal Entry threshold on the existing volume of shipments to $2,500 would be $81 million annually, taking into account the cost savings to all affected parties—customers, express firms, USPS, and CBP. In other words, the loss of MPF is more than offset by the savings to the multiple parties in the delivery chain. Moreover, as with a higher de minimis threshold, a higher Informal Entry threshold would act as a boon to e-commerce, to the great benefit of business firms, especially SMEs, and household customers.

TRADE FACILITATION IN THE APEC ARENA

The business community and economists largely agree that nontariff barriers, such as port logistics and customs formalities, hamper trade to a greater extent than tariff rates. More than a decade ago, in 1997, APEC estimated that enhanced trade facilitation would deliver gains of about 0.3 percent of real GDP to APEC economies annually, almost double what was then expected from tariff liberalization, and that import prices would be 1 to 2 percent lower for developing countries in the APEC region (Ujiie 2006 and APEC 1997). An earlier study by the US National Committee on International Trade Documentation (US NCITD) concluded that costly documentation, the hassles of customs clearance, and associated delays are a major problem in international trade, representing up to 7.5 percent of the value of US export or import shipments. If such costs are incurred at both ends, the total burden could reach 15 percent of the shipment value (SWEPRO 2002).

Reducing the Cost of Time Delay

Despite the significant potential gains from trade facilitation, many developing countries are overlooking the impact of efficient customs clearance. Some countries are concerned that faster movement of shipments across borders could increase smuggling and decrease their customs revenue. To the contrary, experience from several countries suggests that trade facilitation has a positive effect on customs revenue, as larger traffic volumes and less corruption increase the amount of money collected. The Global Trade Analysis Project suggests that improvements

31. A recent study (SITPRO 2007) suggests that the vast majority of customs documentation, up to 94 percent of all paperwork retained, is ultimately destroyed. Nevertheless, the documentation is collected at great expense to all parties in the delivery chain.

32. The details to this calculation are spelled out in the notes to table 12. It should be mentioned that CBP regulations require the retention of Formal Entry paperwork for a minimum of five years.

33. USPS probably faces less burdensome paperwork requirements on Formal Entries and restricted items than private express firms, hence, the lower estimate of cost savings, even though we assume USPS handles about the same volume as express firms combined.

34. Under GATT rules, the MPF should not exceed the costs incurred by CBP to handle the entry in question. The MPF rate schedule either reflects additional costs to CBP from processing a Formal Entry, by comparison with an Informal Entry, or is inconsistent with US obligations under the GATT. The GATT does not permit fees, such as the MPF, for the purpose of raising revenue; such fees are only permitted for the purpose of offsetting costs. We assume that this obligation informed the MPF rate schedule applied to express firms. As noted earlier, USPS does not pay the MPF on Formal Entries; correspondingly we do not attribute a CBP cost to Formal Entries handled by USPS. This assumption could lead to an understatement of CBP costs.

in transport infrastructure and trade facilitation in the ASEAN Greater Mekong Subregion could increase real GDP by 1 to 2 percent for Cambodia, Myanmar, Laos, and Vietnam. For larger economies, such as China and Thailand, the percentage gains in real GDP are much smaller but translate into significant dollar gains in GDP: $350 million for Thailand and $734 million for China.[35]

High logistics costs in several ASEAN countries are a significant obstacle to commerce. According to the Nathan Associates report on ASEAN logistics, transporting goods across the Laos and Thailand border costs shippers four times more than the norm. National logistics costs, expressed as a share of GDP, ranged from a low of about 8 percent for Singapore to a high of 20 percent for Thailand and Vietnam. Within ASEAN, the logistics costs for exporting some products were as high as 25 percent.[36]

To highlight the importance of "time to trade" for China and select ASEAN countries, Anna Strutt, Susan Stone, and Peter Minor (2008) used the tariff equivalent figures calculated by David Hummels for export delays to illustrate the value of "time to trade" by country and product. For example, export delays impose relatively higher costs for agricultural products; the highest observed value was for vegetables and fruits exported from Thailand to the Greater Mekong Subregion, almost 26 percent expressed as a tariff equivalent figure (see table 13). Likewise, the highest observed value for import time delay was nearly 28 percent for vegetables and fruits imported into China (see table 14). Other high import time delay values were observed for processed foods imported into Laos (nearly 22 percent) and a range of manufactured products imported into Thailand (nearly 11 percent).

Several studies show how improved customs procedures, including a reduction in processing times from weeks and days to hours and minutes, does not undercut customs revenue. Instead, delays at the border raise transactions costs and curtail traffic volumes. For example, a five-year project to reform Peruvian customs resulted in the cargo release time declining from an average of 30 days to a maximum of 24 hours for green channel cargo; over the same period, revenue collection quadrupled. The reforms also generated significant gains for the affected companies. Given a 12 percent interest rate, and based on the value of Peru's imports in 2000, one economic study estimated that gains for affected companies, in terms of lower inventory carrying costs, totaled nearly $72 million (SWEPRO 2002).

GDP Gains from Reduced Time Delays

According to Strutt, Stone, and Minor (2008), a 25 percent reduction in the time to export or import would generate GDP gains for the Greater Mekong Subregion exceeding $1 billion annually. While the largest economies—China, Thailand, and Vietnam—receive the biggest increases, the smaller economies gain the most in relative terms. For example, based on the economic simulation, reducing the time to export by 25 percent would increase GDP by 0.6 percent in Laos and 0.1 percent in Thailand. Similarly, reducing the time to import by 25 percent would increase GDP by 1.3 percent in Laos and 0.1 percent in Thailand (see table 15).

In addition, recent economic studies suggest that countries would export a more diverse menu of goods if they could reduce the logistics costs of international trade. For example, in Sub-Saharan Africa, long delays sharply reduce the export volume of higher value-added manufactures. As Strutt, Stone, and Minor (2008) illustrate, by reducing time to trade by 25 percent, the ASEAN Greater Mekong Subregion countries could increase their total world exports of manufactured products by between 4 percent in Cambodia and 57 percent in Vietnam.

Improved logistics and more efficient supply chains would open attractive growth opportunities for emerging-market economies in APEC. Enhanced trade facilitation depends, however, on strong governance. Positive outcomes will be diluted if corruption prevents the benefits from reaching the business community. Some developing countries have customs procedures so inefficient that that they discourage not only trade but also inward foreign direct investment on account of costly clearance, unreliable delivery, and high inventory levels.

Comparison of *De Minimis* Regimes in APEC

Compared with the United States, there is less information about *de minimis* thresholds and Informal Entry processes elsewhere in the APEC region, and consequently it is difficult to estimate the aggregate gains from streamlined customs procedures. No doubt gains could be significant—less paperwork, faster delivery, and fewer avenues for corruption. Relevant for *de minimis* regimes, studies suggest that the customs administration costs and fees comprise a higher share of the delivered cost of the product for low-value items.[37] Better trade facilita-

35. Strutt, Stone, and Minor (2008) and Engman (2005). The estimates are based on the gains associated with reducing time to trade in the Greater Mekong Subregion by 25 percent.

36. Ibid.; Nathan Associates (2007). Export logistics costs are expressed on a free-on-board (fob) basis, and the 25 percent export logistics cost estimate consists of procurement (with a weight of 17 percent), inventory holding (weight of 10 percent), warehousing (weight of 11 percent), transport (weight of 28 percent), and export processing (weight of 34 percent).

37. For example, customs administration costs comprise about 80 percent

Box 3 Hong Kong's experience with simple paperless entry requirements

In 2005, Hong Kong launched the Digital Trade and Transportation Network (DTTN), an automated single window implementation system that emphasizes user friendly features for low-value entries with minimum requirements. Specifically, DTTN acts as a smart logistics platform that reduces costs through e-documentation rather than exchanging paper documents. In addition, DTTN has standardized the paperless trading environment for stakeholders in the supply chain, including government, manufacturers, suppliers, freight forwarders, shipping lines, airlines, truckers, insurance institutions, inspection agencies, banks, and buyers.

By facilitating international trade, DTTN allows companies to use a web-based interface that supports different kinds of technologies and standards, without requiring companies to change their existing business methods or technology. Given that 90 percent of Hong Kong traders are small and medium-sized enterprises (SMEs), DTTN is specifically adapted for low-value entries by the SME sector and only requires companies to have access to the internet and Microsoft Excel software. DTTN reduces paperwork costs, error rates, and administrative burdens, generating savings of up to 80 minutes per business transaction and cost savings of up to $0.9 million per year for SMEs (SITPRO 2008).

tion generates significant benefits for SMEs, household buyers, express delivery and postal systems, and of course the customs service itself. One example is the Hong Kong Digital Trade and Transportation Network (DTTN), a paperless system that is estimated to have delivered savings of nearly $0.9 million a year to SMEs. Box 3 describes Hong Kong's experience with e-documentation through a "single window" environment, which has significantly reduced processing time and generated substantial cost savings.

A few APEC member countries have higher *de minimis* thresholds than the United States. As table 16 shows, Australia ($1,075), New Zealand ($320), and Singapore ($324) have more liberal thresholds. However, many APEC countries, such as Canada and Mexico,[38] have lower *de minimis* thresholds, mainly because they impose value-added tax (VAT) or goods and services tax on imports as well as domestic sales and they are worried (perhaps unnecessarily) about the potential loss of VAT or GST revenue.[39] Since the United States does not have a national consumption tax in the VAT family, it can enjoy the efficiency payoff from raising the *de minimis* threshold with no concerns about the loss of VAT revenue. In any event, for APEC countries that do worry about the potential loss of VAT or GST revenue, one solution might be a *de minimis* threshold of $100 with no tax, and a flat charge, say $25, on *de minimis* shipments valued between $100 and $400.

What Will Customs Employees Do?

Customs employees, like everyone else, are concerned about job security. The prospect of raising *de minimis* and Informal Entry thresholds consequently arouses fear that the workload of the customs authority will be cut and that jobs will be lost. While these fears may act as a significant obstacle to customs reform—not only in the United States but also in other APEC countries—they are misplaced. The volume of trade in the APEC region is consistently growing at about 4 percent annually, and this alone means more work for customs authorities and more jobs for customs employees. Equally important, the agenda of pressing security concerns is long, and if customs employees can be freed from the arcane task of processing low-value shipments and collecting trivial amounts of revenue, they can devote greater attention to serious security issues. These include counterfeit merchandise, illegal drugs and other contraband goods, safety of food and other products, sanitary and phytosanitary standards, and of course the threat of terrorism.

Concerns are sometimes expressed that improved trade facilitation might increase smuggling and reduce customs revenues. But trade facilitation properly implemented should be seen not as an erosion of border protection but rather as a means for helping the customs agency manage its staff more efficiently. Even today, most customs authorities have more work than they

of the wholesale product price for low-value apples imported from Chile. By contrast, high value berries imported from Chile comprise just 64 percent of product value. See SITPRO (2007).

38. The *de minimis* threshold in Mexico ($50) is not applied uniformly across all firms.

39. Even in countries that have a value-added tax, such as the GST in Australia, Canada, or New Zealand, a low *de minimis* threshold does not necessarily generate much additional GST revenue. GST collected on business imports will essentially be refunded to the business firm through an input tax credit. See CAPEC (2009). Hence the GST revenue loss from a higher *de minimis* threshold is limited to the GST that would have been collected on imports by households for their own use.

can handle, and the workload will continue to grow with the expansion of global commerce. Reforming the protocols for low-value shipments will release manpower for addressing more important tasks.

CONCLUSION

Trade facilitation for low-value shipments—*de minimis* and Informal Entries—is critical for cutting through red tape and streamlining business. In the United States, the Secretary of Treasury has flexibility to raise the *de minimis* and Informal Entry thresholds and to slash the number of "exceptions" to the Informal Entry process. The payoff associated with raising thresholds and reducing "exceptions" could be significant. An increase in the *de minimis* threshold to $800 would generate net gains of around $17 million annually, taking into account the cost savings at each stage of the delivery chain and the revenue not collected by the customs authority. The saving of paperwork costs alone on *de minimis* entries might be $33 million a year. Raising the Informal Entry threshold to $2,500, and slashing the number of "exceptions," could generate net gains of $81 million per year.

Trade facilitation for low-value shipments—*de minimis* and Informal Entries—is critical for cutting through red tape and streamlining business.

These estimates apply to the United States. For emerging-market economies, potential gains from higher *de minimis* and Informal Entry thresholds and are very likely more substantial relative to the size of their economies. The reason is that existing impediments to low-value shipments are generally greater than in the United States. One successful way to reduce delays and speed trading is to set up an electronic system for processing customs declarations, patterned after Hong Kong.

Much is lost from delays in trading, and customs clearance paperwork and procedures represent a significant share of these delays. However, trade reform still focuses more on cutting tariffs rather than cutting delays for exporters and importers. Recent studies suggest that the costs of logistics obstacles and "time to trade" often exceed the costs of tariff barriers (Dennis and Shepherd 2007). For the United States, we estimate that each additional day that a shipment is delayed imposes on customers a time charge equal to about 0.4 percent of the declared value of the entry. For countries in the Greater Mekong Subregion, recent studies suggest that trade facilitation measures could increase real GDP by 1 to 2 percent.

Improving logistics and raising thresholds for low-value shipments are powerful and relatively inexpensive means of enhancing the trading system. These measures are no threat to job security in the customs services of APEC nations. There is no reason for delay. Reforms should be an important part of the APEC agenda, and they should be launched in 2011.

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Table 1 Trade and GDP gains from trade facilitation improvements

	Broadly defined[a]				Narrowly defined[b]			
	Trade gains (billions of dollars)		GDP gains		Trade gains (billions of dollars)		GDP gains	
Region	Imports	Exports	Percent	Billions of dollars	Imports	Exports	Percent	Billions of dollars
European Union	70.0	29.5	0.3	45.8	17.2	16.3	0.1	15.4
Japan	20.7	13.7	0.4	15.8	5.1	7.5	0.1	5.8
United States	93.3	19.0	0.4	51.7	23.0	10.5	0.1	15.4
Brazil	10.3	8.2	0.6	8.5	4.7	2.2	0.2	3.2
China	97.3	101.4	2.8	91.4	32.0	19.9	0.7	23.9
India	20.9	12.7	1.4	15.4	9.1	2.6	0.5	5.4
Sample country total	468.2	284.0	0.7	346.0	138.5	86.8	0.2	103.6
Global total	nc	nc	0.8	393.2	nc	nc	0.2	117.8

nc = not calculated. The sample country import and export gains from trade facilitation are for 22 countries.

a. The broad definition of trade facilitation from Wilson, Mann, and Otsuki (2005) includes the estimated gains from services infrastructure, port efficiency, customs environment, and regulatory environment.

b. The narrow definition includes only the estimated gains from customs environment and regulatory environment.

Notes: Imports are imports from the world and exports are exports to the 22 countries in the sample.
Trade gains are calculated using coefficients from Wilson, Mann, and Otsuki (2005). GDP gains are calculated using coefficients from Hufbauer, Schott and Wong (2010).

Sources: Hufbauer, Schott, and Wong (2010), based on Wilson, Mann, and Otsuki (2005).

Table 2 Global Logistics Performance Index (LPI) ranking and scores, 2010

LPI rank	Country	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking and tracing	Timeliness
				Top 20 countries				
1	Germany	4.11	4.00	4.34	3.66	4.14	4.18	4.48
2	Singapore	4.09	4.02	4.22	3.86	4.12	4.15	4.23
3	Sweden	4.08	3.88	4.03	3.83	4.22	4.22	4.32
4	Netherlands	4.07	3.98	4.25	3.61	4.15	4.12	4.41
5	Luxembourg	3.98	4.04	4.06	3.67	3.67	3.92	4.58
6	Switzerland	3.97	3.73	4.17	3.32	4.32	4.27	4.20
7	Japan	3.97	3.79	4.19	3.55	4.00	4.13	4.26
8	United Kingdom	3.95	3.74	3.95	3.66	3.92	4.13	4.37
9	Belgium	3.94	3.83	4.01	3.31	4.13	4.22	4.29
10	Norway	3.93	3.86	4.22	3.35	3.85	4.10	4.35
11	Ireland	3.89	3.60	3.76	3.70	3.82	4.02	4.47
12	Finland	3.89	3.86	4.08	3.41	3.92	4.09	4.08
13	Hong Kong	3.88	3.83	4.00	3.67	3.83	3.94	4.04
14	Canada	3.87	3.71	4.03	3.24	3.99	4.01	4.41
15	United States	3.86	3.68	4.15	3.21	3.92	4.17	4.19
16	Denmark	3.85	3.58	3.99	3.46	3.83	3.94	4.38
17	France	3.84	3.63	4.00	3.30	3.87	4.01	4.37
18	Australia	3.84	3.68	3.78	3.78	3.77	3.87	4.16
19	Austria	3.76	3.49	3.68	3.78	3.70	3.83	4.08
20	Taiwan	3.71	3.35	3.62	3.64	3.65	4.04	3.95
				APEC member countries[a]				
2	Singapore	4.09	4.02	4.22	3.86	4.12	4.15	4.23
7	Japan	3.97	3.79	4.19	3.55	4.00	4.13	4.26
13	Hong Kong	3.88	3.83	4.00	3.67	3.83	3.94	4.04
14	Canada	3.87	3.71	4.03	3.24	f	4.01	4.41
15	United States	3.86	3.68	4.15	3.21	3.92	4.17	4.19
18	Australia	3.84	3.68	3.78	3.78	3.77	3.87	4.16
20	Taiwan	3.71	3.35	3.62	3.64	3.65	4.04	3.95
21	New Zealand	3.65	3.64	3.54	3.36	3.54	3.67	4.17
23	Korea	3.64	3.33	3.62	3.47	3.64	3.83	3.97
27	China	3.49	3.16	3.54	3.31	3.49	3.55	3.91
29	Malaysia	3.44	3.11	3.50	3.50	3.34	3.32	3.86
35	Thailand	3.29	3.02	3.16	3.27	3.16	3.41	3.73
44	Philippines	3.14	2.67	2.57	3.40	2.95	3.29	3.83
49	Chile	3.09	2.93	2.86	2.74	2.94	3.33	3.80
50	Mexico	3.05	2.55	2.95	2.83	3.04	3.28	3.66
53	Vietnam	2.96	2.68	2.56	3.04	2.89	3.10	3.44
67	Peru	2.80	2.50	2.66	2.75	2.61	2.89	3.38
75	Indonesia	2.76	2.43	2.54	2.82	2.47	2.77	3.46
94	Russia	2.61	2.15	2.38	2.72	2.51	2.60	3.23
124	Papua New Guinea	2.41	2.02	1.91	2.55	2.20	2.43	3.24
				Other key US trading partners				
40	Saudi Arabia	3.22	2.91	3.27	2.80	3.33	3.32	3.78
41	Brazil	3.20	2.37	3.10	2.91	3.30	3.42	4.14
47	India	3.12	2.70	2.91	3.13	3.16	3.14	3.61
84	Venezuela	2.68	2.06	2.44	3.05	2.53	2.84	3.05

a. Brunei was not included in the World Bank LPI ranking of 155 countries.

Source: World Bank (2010).

Table 3 Comparison of Logistics Performance Index (LPI) scores and ranking, 2010

	Overall LPI		Customs		Infrastructure		International shipments		Logistics competence		Tracking and tracing		Timeliness	
Country	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
APEC member countries[a]														
Singapore	2	4.09	2	4.02	4	4.22	1	3.86	6	4.12	6	4.15	14	4.23
Japan	7	3.97	10	3.79	5	4.19	12	3.55	7	4.00	8	4.13	13	4.26
Hong Kong	13	3.88	8	3.83	13	4.00	6	3.67	14	3.83	17	3.94	26	4.04
Canada	14	3.87	13	3.71	11	4.03	32	3.24	8	3.99	15	4.01	5	4.41
United States	15	3.86	15	3.68	7	4.15	36	3.21	11	3.92	5	4.17	16	4.19
Australia	18	3.84	14	3.68	18	3.78	3	3.78	17	3.77	20	3.87	18	4.16
Taiwan	20	3.71	25	3.35	22	3.62	10	3.64	22	3.65	12	4.04	30	3.95
New Zealand	21	3.65	16	3.64	26	3.54	23	3.36	26	3.54	25	3.67	17	4.17
Korea	23	3.64	26	3.33	23	3.62	15	3.47	23	3.64	23	3.83	28	3.97
China	27	3.49	32	3.16	27	3.54	27	3.31	29	3.49	30	3.55	36	3.91
Malaysia	29	3.44	36	3.11	28	3.50	13	3.50	31	3.34	41	3.32	37	3.86
Thailand	35	3.29	39	3.02	36	3.16	30	3.27	39	3.16	37	3.41	48	3.73
Philippines	44	3.14	54	2.67	64	2.57	20	3.40	47	2.95	44	3.29	42	3.83
Chile	49	3.09	41	2.93	50	2.86	94	2.74	48	2.94	40	3.33	44	3.80
Mexico	50	3.05	62	2.55	44	2.95	77	2.83	44	3.04	45	3.28	54	3.66
Vietnam	53	2.96	53	2.68	66	2.56	58	3.04	51	2.89	55	3.10	76	3.44
Peru	67	2.80	64	2.50	56	2.66	93	2.75	71	2.61	70	2.89	79	3.38
Indonesia	75	2.76	72	2.43	69	2.54	80	2.82	92	2.47	80	2.77	69	3.46
Russia	94	2.61	115	2.15	83	2.38	96	2.72	88	2.51	97	2.60	88	3.23
Papua New Guinea	124	2.41	138	2.02	135	1.91	111	2.55	131	2.20	118	2.43	87	3.24
Other key US trading partners														
Germany	1	4.11	3	4.00	1	4.34	9	3.66	4	4.14	4	4.18	3	4.48
Netherlands	4	4.07	4	3.98	2	4.25	11	3.61	3	4.15	9	4.12	6	4.41
United Kingdom	8	3.95	11	3.74	16	3.95	8	3.66	9	3.92	7	4.13	8	4.37
France	17	3.84	17	3.63	14	4.00	28	3.30	12	3.87	14	4.01	9	4.37
Saudi Arabia	40	3.22	43	2.91	33	3.27	82	2.80	32	3.33	42	3.32	45	3.78
Brazil	41	3.20	82	2.37	37	3.10	65	2.91	34	3.30	36	3.42	20	4.14
India	47	3.12	52	2.70	47	2.91	46	3.13	40	3.16	52	3.14	56	3.61

a. Brunei was not included in the World Bank LPI ranking of 155 countries.

Source: World Bank (2010).

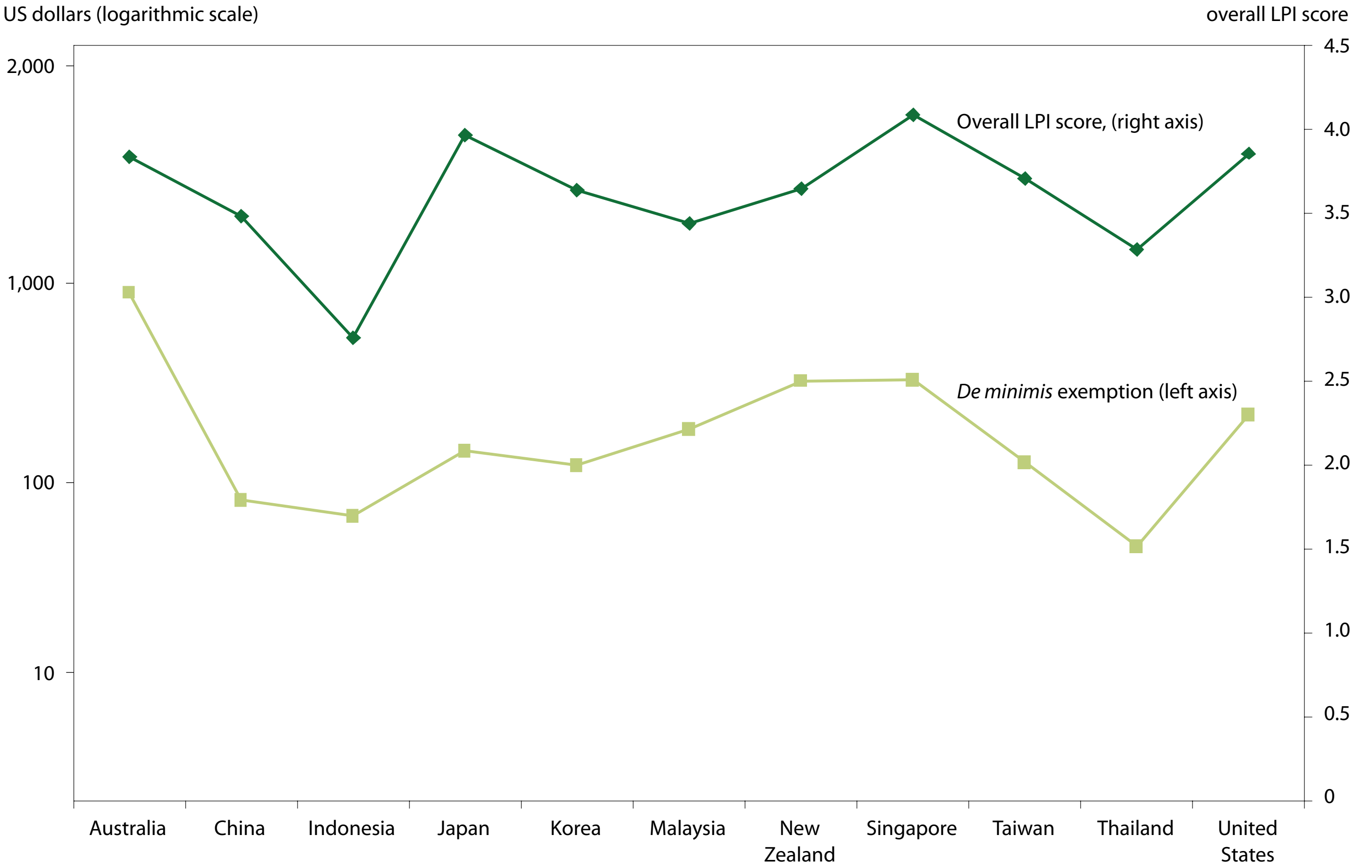
Table 4 Comparison of Logistics Performance Index (LPI) scores: Clearance time and charges for export and import containers, 2010

Country	Clearance time (days)	Typical charge for 40-feet export container or semi-trailer (US dollars)	Typical charge for 40-feet import container or semi-trailer (US dollars)
		APEC members[a]	
Singapore	1.22	422	335
Japan	1.26	500	707
Hong Kong	0.55	465	459
Canada	2.16	731	1,015
United States	2.15	1,145	1,482
Australia	1.76	955	869
Taiwan	1.25	393	500
New Zealand	1.26	250	194
Korea	1.00	354	500
China	3.38	419	376
Malaysia	2.08	354	300
Thailand	1.41	250	354
Philippines	3.42	1,118	1,357
Chile	1.32	1,587	1,225
Mexico	2.32	1,314	1,275
Vietnam	3.46	500	500
Peru	3.65	500	944
Indonesia	5.12	379	1,024
Russia	4.62	1,310	1,145
Papua New Guinea	n.a.	n.a.	n.a.
		Other key US trading partners	
Germany	1.57	612	n.a.
Netherlands	1.13	459	707
United Kingdom	2.05	n.a.	1,140
France	n.a.	n.a.	n.a.
Saudi Arabia	7.61	250	274
Brazil	5.47	1,614	1,570
India	3.45	660	1,267

a. Brunei was not included in the World Bank LPI ranking of 155 countries.

Source: World Bank (2010).

Figure 1 Comparison between *de minimis* exemptions and overall LPI scores in APEC members



LPI = Logistics Performance Index, where a score of 1 is worst and 5 is best.
APEC = Asia Pacific Economic Cooperation forum

Source: Authors' calculations based on tables in this policy brief.

Table 5 Actual and potential volume of *de minimis* import shipments
(thousands of entries)

Carrier	Actual volume with *de minimis* at $200	Potential additional volume if *de minimis* raised to $800
Express firms	31,300	3,800
USPS	unknown	3,800[a]
Total	unknown	7,600[a]
Memorandum:[b]		
CBP estimates	722	1,434

a. The US Postal Service (USPS) figure is an estimate by the authors. The total figure reflects this USPS estimte.
b. The US Customs and Border Protection (CBP) figures are entered as a reference. We believe the survey figures for express firms and the estimates for USPS are more accurate. The CBP figure for the potential volume represents a combination of 1,134,000 for entries valued between $200 and $500 plus an interpolated estimate of 300,000 for entries valued between $500 and $800.

Sources: Responses from Peterson Institute Survey of Express Shipping Firms; USPS (2010).

Table 6 List of merchandise that would benefit from raising the *de minimis* threshold to $800

HTS code	Merchandise category	Representatitve ad valorem tariff (percent)	HTS code	Merchandise category	Representatitve ad valorem tariff (percent)
4012, 8432, 8407, 8433, 8436, 9817	Agricultural machinery parts*	3.1	8413, 9017, 9030, 9031	Measuring devices/ monitors	2.9
8415	Air conditioner parts	1.5	8466	Metalworking machine parts	4.7
8414	Air filters	3.7	8207, 8437, 8459, 8465	Mill machine parts	3.8
8409, 8411, 8503, 8543, 8803, 8805, 9014, 9029, 9401	Aircraft parts	3.2	7011, 8504, 8527, 8528, 8540	Monitors	8.2
8518	Audio equipment, parts/accessories	6.7	7304, 7305, 7306, 8430	Oil drilling Refining equipment/ parts	free
8607, 8301, 8302, 8512, 8708, 9401, 9403	Auto/truck parts	3.3	8422	Packaging machine parts	free
7802, 8506, 8507, 8545, 8548, 9902, 9903	Batteries	2.4	7419, 8420, 8441, 8483	Paper making machine parts	3.0
3926, 4011, 4012, 4013, 7315, 8512, 8712, 8714, 9029, 9804, 9813, 9817, 9902	Bicycles/parts/ accessories*	5.1	8471, 8504	Power supplies	free
4820, 4901–4903, 5901, 9804	Books/magazines	5.6	8418	Refrigerator/freezer parts	1.5
8525, 7011, 8528–8529, 8540, 9002, 9504, 9902-9903	Cable TV apparatus	4.2		Robotic parts	2.5
8525, 8529, 8540, 9002, 9006, 9007, 9902	Cameras	3.6	4202, 7018, 7103, 7113, 7116, 7117, 9601	Jewelry	5.6
4202, 9902, 8479, 8523	CDs/DVDs	3.5	7318, 7415, 7616, 8477	Screws/nails/fasteners	4.7
8517	Cell phones, Blackberries and the like	free	8426, 8487, 8901, 9014	Ship spares	3.2
3824, 8529	Circuit boards*	4.0	3926, 4202, 4203, 6116, 6402, 6404, 6506, 9506	Sporting goods*	9.1
8471, 8504, 8523, 9903, 9901	Computer parts/ accessories	3.0	8504, 8518, 8544, 9030, 9902	Telecommunication apparatus	1.5
8540, 8541, 9013, 9902	Diodes	5.6	9032, 8530, 8608	Temperature measure control equipment	2.8
3801, 8414, 8425, 8427, 8467, 8501, 8504, 8408, 8409, 8510, 8537, 9902	Electric motors/pumps	3.4	4016, 6307, 7117, 9503	Toys	4.3
8409, 8412, 8413, 8421, 8507, 8548, 9031, 9801	Engine parts	2.5	8504, 9515, 9902	Transformers	2.0
7013, 7016, 7018, 7019, 7020, 8205, 9013, 9405, 9505	Glass articles	6.1	7011, 8528, 8529, 8540, 9902, 9903	TVs	4.7
9506	Golf clubs and accessories	4.7	7325, 8415, 8481, 9902	Valves and pumps	2.6
5701, 5703, 8201, 8205, 8419, 8467	Hand tools	4.9	8468, 8515	Welding machine parts	2.5
8486, 8542, 9902	Integrated circuits	free	8207, 8465, 8466	Woodworking machine parts	3.6
8419, 8514, 9010	Laboratory equipment/ parts	3.6			
5908, 7011, 8513, 8536, 8539, 8545, 9405, 9902	Lamps/light fixtures	4.6			
4115, 4202, 4203, 4205, 5911, 6101, 6102, 6110, 6406, 8214	Leather articles*	5.5			
8205, 8207, 8208, 8406, 8409	Machine parts	5.5			
Average ad valorem tariff		4.1			

Notes: The illustrative list includes seven classes of merchandise, which face unusual restrictions within the informal entry threshold and are instead subject to the formal entry requirements (19 CFR 143.21(a)): backpacks/handbags, briefcases/suitcases, carpets, clothing, plastic articles, rubber articles, and shoes/boots. These are indicated by an asterisk.

Source: Peterson Institute Survey of Express Shipping Firms.

Table 7A Raising *de minimis* threshold to $800: Estimated impact on costs and revenue for customers, express firms, USPS, and CBP

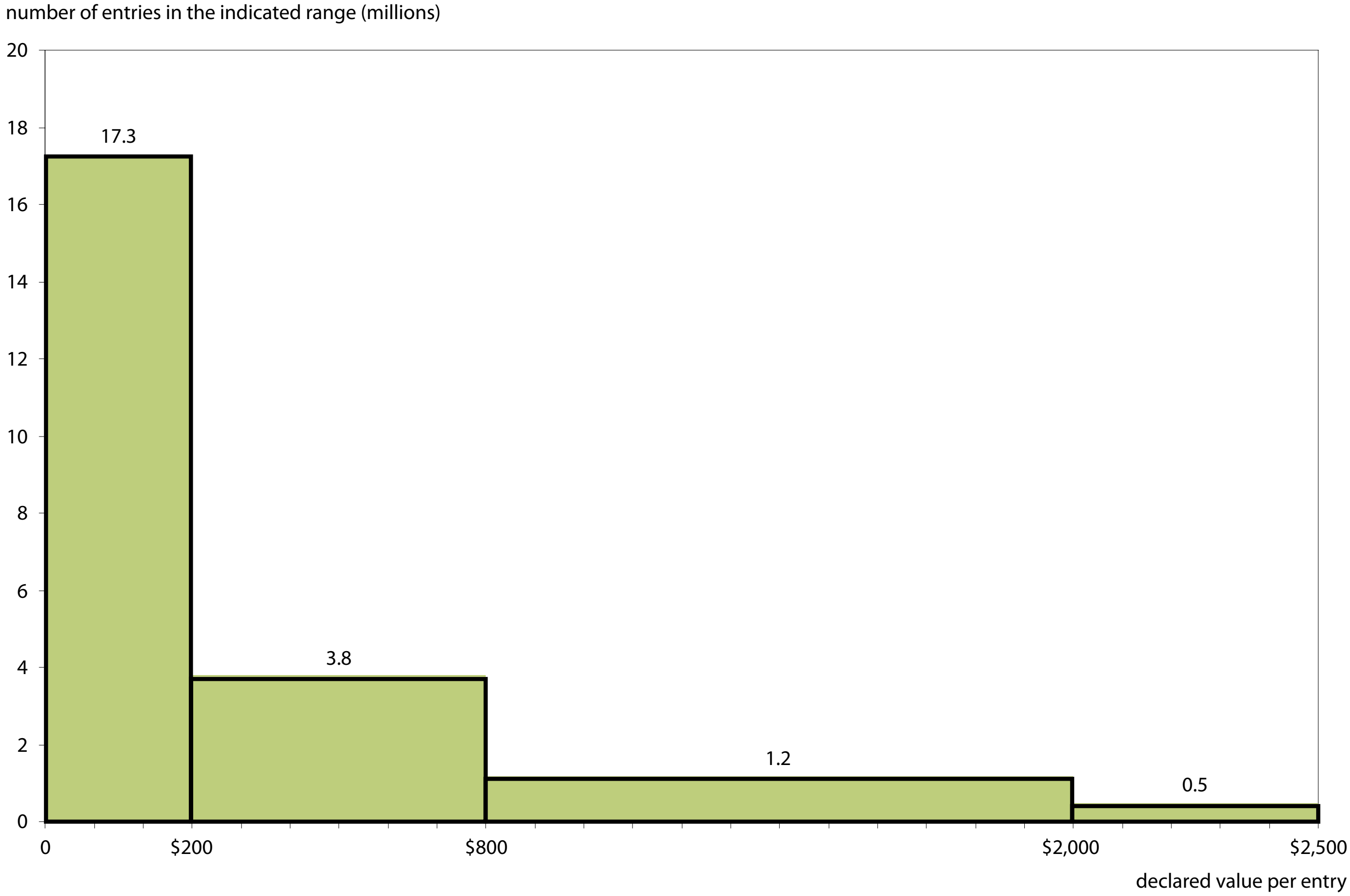
Volume/cost savings	Volume/amount	Value in dollars
Representative ad valorem tariff rate[a]	2.6 percent	n.a.
Estimated average value per entry in the $200 to $800 range[b]	n.a.	$300
Additional volume of express entries from $200 to $800[c]	3.8 million	$1,704 million
Additional volume of USPS entries from $200 to $800[c]	3.8 million	$1,704 million
Days of customer time saved[d]	1 day	n.a.
Value of customer time saved for all entries[e]	0.4 percent tariff equivalent per day	$9 million
Estimated cost savings to express firms[f]	n.a.	$32 million
Estimated cost savings to USPS[f]	n.a.	$24 million
Estimated cost savings to CBP[g]	n.a.	$11 million
Estimated loss of tariff revenue[h]	n.a.	$59 million
Net gain from raising *de minimis* threshold[i]	n.a.	$17 million

CBP = US Customs and Border Protection agency; USPS = US Postal Service; n.a. = not applicable

a. Based on data in table 6 and overall duty on all US imports in FY2010.
b. Based on distribution of entries in figure 2.
c. Based on survey of express firms (from table 5) and assuming same volume for USPS.
d. Assumed by authors.
e. Calculated as days saved per entry times number of additional entries times tariff equivalent of 0.4 percent per day times assumed average value of $300 per additional entry.
f. Based on survey of express firms. Cost savings by USPS are assumed to be three-fourths of the savings to express firms combined.
g. Estimated at one-fifth the estimated cost savings to express firms and USPS combined.
h. Loss of tariff revenue estimated as average tariff rate (2.6 percent) times additional value of express firm and USPS entries ($2,280 million).
i. Net gain equals value of time saved to customers, plus cost savings to express firms, USPS, and CBP, minus loss of tariff revenue.

Sources: Analysis of results of Peterson Institute Survey of Express Shipping Firms and interviews with express firms and CBP.

Figure 2 Approximate distribution of volume of US import entries in different low-value ranges



Source: Authors' calculations based on tables in this policy brief.

Table 7B Paperwork costs avoided by express firms and CBP from raising the *de minimis* threshold to $800

Costs	Volume/amount	Value in dollars
Additional volume and value of entries from $200 to $800, express firms and USPS[a]	7.6 million	$2,280 million
Estimated time to process entries[a]	0.15 hours per entry	n.a.
Average labor cost to process entries for express firms and USPS[a]	n.a.	21 per hour
Average labor cost to process entries for CBP[b]	n.a.	34 per hour
Estimated costs for storing paperwork Form 7501[c]	n.a.	$1 million per year
Paperwork costs for express firms and USPS	n.a.	$25 million per year
Paperwork costs for CBP	n.a.	$8 million per year
Total paperwork costs that could be avoided	n.a.	$33 million per year

CBP = US Customs and Border Protection agency; USPS = US Postal Service; n.a. = not applicable

a. Based on survey of express firms and assuming similar volumes, values, and processing time for USPS.
b. Based on Department of Homeland Security Congressional Budget Justification (FY2011 and FY2012).
c. Based on survey of express firms.

Sources: Analysis of results of Peterson Institute Survey of Express Shipping Firms and interviews with express firms and CBP; Department of Homeland Security Congressional Budget Justification (FY2011, FY2012).

Table 8 Raising the informal entry threshold: List of merchandise and value of time saved by faster delivery (assumed average travel time = 1 extra day)

Harmonized Tariff Schedule Code	Merchandise category	Tariff equivalent value of time saving per day (percent)	Estimated value of time saved per entry averaging $2,250 (dollars)
85	Agricultural machinery parts	0.4	9
85	Air conditioner parts	0.4	9
84	Air filters	0.4	9
88	Aircraft parts	0.4	9
85	Audio equipment/parts/accessories	0.4	9
87	Auto/truck parts	0.4	9
85	Batteries	0.4	9
87	Bicycles/parts/accessories	0.4	9
73	Bolts/nuts/washers	0.4	9
49	Books/magazines	0.5	10
85	Cable TV apparatus	0.4	9
85	Cameras	0.4	9
85	CDs/DVDs	0.4	9
85	Cell phones/Blackberries and the like	0.4	9
84	Circuit boards	0.4	9
85	Computer parts/accessories	0.4	9
84 and 85	Computers/laptops	0.4	9
85	Diodes	0.4	9
85	Electric connectors and cables	0.4	9
85	Electric motors/pumps	0.4	9
84	Engine parts	0.4	9
94	Glass articles	0.5	11
95	Golf clubs and accessories	0.5	10
82 and 84	Hand tools	0.4	9
85	Integrated circuits	0.4	9
71	Jewelry	0.4	9
85	Laboratory equipment/parts	0.4	9
94	Lamps/light fixtures	0.5	11
41	Leather articles	0.2	3
84	Machine parts	0.4	9
84	Measuring devices/monitors	0.4	9
84	Metalworking machine parts	0.4	9
84	Mill machine parts	0.4	9
85	Monitors	0.4	9
73	Oil drilling/refining equipment/parts	0.4	9
84	Packaging machine parts	0.4	9
84	Paper making machine parts	0.4	9
85	Power supplies	0.4	9
84	Refrigerator/freezer parts	0.4	9

(table continues on next page)

Table 8 Raising the informal entry threshold: List of merchandise and value of time saved by faster delivery (assumed average travel time = 1 extra day) *(continued)*

Harmonized Tariff Schedule Code	**Merchandise category**	**Tariff equivalent value of time saving per day** (percent)	**Estimated value of time saved per entry averaging $2,250** (dollars)
84	Robotic parts	0.4	9
73	Screws/nails/fasteners	0.4	9
89	Ship spares	0.4	9
95	Sporting goods	0.5	10
85	Telecommunication apparatus	0.4	9
90	Temperature measure/control equipment	0.5	10
84	Textile machinery parts	0.4	9
95	Toys	0.5	10
85	Transformers	0.4	9
90	TVs	0.5	10
84	Valves and pumps	0.4	9
84	Washing machine parts	0.4	9
91	Watches and parts	1.4	30
84	Water filters	0.4	9
84	Water pumps	0.4	9
85	Welding machine parts	0.4	9
44	Wooden articles	–0.1	n.a.
84	Woodworking machine parts	0.4	9
84	Woodworking tools	0.4	9
Average		0.4	$48
Subtotal estimate cost savings			$2,790
Estimated time saved per entry by informal entry process (days)			1 day
Estimate entries per year in the range $2,000 to $2,500 (millions)			0.5
Estimate of value of time saved by raising the informal threshold (millions dollars)			$24

Source: Peterson Institute Survey of Express Shipping Firms; Hummels (2001)

Table 9 List of merchandise that would benefit from raising the informal entry threshold to $2,500

Agricultural machinery parts	Machine parts
Air conditioner parts	Measuring devices/monitors
Air filters	Metalworking machine parts
Aircraft parts	Mill machine parts
Audio equipment/parts/accessories	Monitors
Auto/truck parts	Oil drilling/refining equipment/parts
Batteries	Packaging machine parts
Bicycles/parts/accessories	Paper making machine parts
Bolts/nuts/washers	Power supplies
Books/magazines	Refrigerator/freezer parts
Cable TV apparatus	Robotic parts
Cameras	Screws/nails/fasteners
CDs/DVDs	Ship spares
Cell phones/Blackberries and the like	Sporting goods
Circuit boards	Telecommunication apparatus
Computer parts/accessories	Temperature measure/control equipment
Computers/laptops	Textile machinery parts
Diodes	Toys
Electric connectors and cables	Transformers
Electric motors/pumps	TVs
Engine parts	Valves and pumps
Glass articles	Washing machine parts
Golf clubs and accessories	Watches and parts
Hand tools	Water filters
Integrated circuits	Water pumps
Jewelry	Welding machine parts
Laboratory equipment/parts	Wooden articles
Lamps/light fixtures	Woodworking machine parts
Leather articles	Woodworking tools

Source: Peterson Institute Survey of Express Shipping Firms.

Table 10 Actual and prospective volume of informal entry import shipments

Carrier	**Actual informal entries at $2,000 threshold**[a] (millions of entries per year)	**Prospective additional entries if informal threshold raised to $2,500** (millions of entries per year)
Express firms	5.0	0.5
USPS[b]	5.0	0.5
Total[b]	10.0	1.0
Memorandum:[c]		
CBP estimates	4.1	0.2

a. Includes "exceptions" within the informal entry range that must be entered under the formal entry list as restricted items.
b. The authors assume that USPS experience is similar to the combined experience of express firms. The totals reflect this assumption.
c. The CBP figures are entered as a reference. We believe the survey figures for express firms and the estimates for USPS are more accurate.

Sources: Responses from CBP and Peterson Institute Survey of Express Shipping Firms; CBP (2010).

Table 11 List of restricted merchandise requiring formal entry

HTS code (4-digit)	Merchandise category	Number of restricted items
Section VII Plastics, Rubber and Articles Thereof		
3901 to 3926	Plastics and articles thereof	124
4001 to 4017	Rubber and articles thereof	84
Section VIII Raw Hides, Leather, Furskins, Travel Goods, Handbags, Articles of Animal Gut (Other than Silkworm)		
4101 to 4115	Raw hides and skins (other than furskins) and leather	37
4201 to 4206	Articles of leather; travel goods, handbags	20
4301 to 4304	Furskins and artificial fur; manufactures thereof	11
Section XI Textile and Textile Articles		
5001 to 5007	Silk	9
5101 to 5113	Wool, animal hair; horsehair yarn and woven fabric	38
5201 to 5212	Cotton	124
5301 to 5311	Other vegetable textile fibers; paper yarn	23
5401 to 5408	Man-made filaments	70
5501 to 5516	Man-made staple fibers	107
5601 to 5609	Wadding, special yarns, ropes and cables and articles	31
5701 to 5705	Carpets and other textile floor coverings	21
5801 to 5811	Special woven fabrics; lace, tapestries; trimmings; embroidery	40
5901 to 5911	Coated, covered or laminated textile fabrics; textile articles	24
6001 to 6006	Knitted or crocheted fabrics	43
6101 to 6117	Apparel and clothing accessories, knitted or crocheted	106
6201 to 6217	Apparel and clothing accessories, not knitted or crocheted	113
6301 to 6310	Textile articles, worn clothing and worn textile articles; rags	52
Section XII Footwear, Headgear, Umbrellas, Walking Sticks, Whips, Riding Corps and Parts, Artificial Flowers, Articles of Human Hair		
6401 to 6406	Footwear, gaiters and the like; parts of such articles	26
6501 to 6507	Headgear and parts thereof	10
Section XX Miscellaneous Manufactured Articles		
9401 to 9406	Furniture; bedding, mattresses; lamps; prefabricated buildings	39
Section XXII Special Classification Provisions, Temporary Legislation, Modifications Pursuant to Trade Agreements; Import Restrictions, such as pursuant to Section 22 of Agricultural Adjustment Act (Amended)		
9903 to 9904	Temporary legislation, modifications trade agreements; import restrictions pursuant to section 22 of the Agricultural Adjustment Act	19
Grand total of restricted merchandise items		**1,171**

HTS = Harmonized Tariff Schedule

Table 12 Raising informal entry threshold to $2,500 and narrowing restricted entry list: Estimated impact on costs and revenue for customers, express firms, USPS, and CBP

	Volume/amount	Value in dollars
Average value per entry in the $2,000 to $2,500 range[b]	n.a.	$2,250
Volume and value of entries from $2,000 to $2,500 handled by express firms[a]	0.5 million	$1,125 million
Volume and value of entries from $2,000 to $2,500 handled by USPS[a]	0.5 million	$1,125 million
Days of customer time saved[b]	2 days	n.a.
Value of customer time saved for all entries in the $2,000 to $2,500 range (1 million entries)[c]	0.4 percent per day	$18 million
Average value of restricted merchandise entries[b]	n.a.	$300
Volume and value of "unnecessary" restricted entries handled by express firms[a]	0.5 million	$150 million
Volume and value of "unnecessary" restricted entries handled by USPS[a]	0.5 million	$150 million
Value of customer time for all "unnecessary" restricted entries (1 million entries)[d]	0.4 percent per day	$3 million
Estimated cost savings to express firms from raising Informal threshold and narrowing the list of "exceptions"[e]	n.a.	$40 million
Estimated cost savings to USPS from raising informal threshold and narrowing the list of "exceptions"[f]	n.a.	$20 million
Estimated cost savings to CBP from raising the informal threshold[g]	n.a.	$13 million
Estimated cost savings to CBP from narrowing the list of "exceptions"[h]	n.a.	$13 million
Estimated MPF revenue loss from raising the informal threshold[g]	n.a.	$13 million
Estimated MPF revenue loss from narrowing the list of "exceptions"[h]	n.a.	$13 million
Net gain from raising informal entry threshold[i]		$81 million

CBP = US Customs and Border Protection agency; USPS = US Postal Service; MPF = merchandise processing fees; n.a. = not applicable

a. Based on our survey of express firms and assumed average values of $2,250 per entry in the $2,000 to $2,500 range, and $300 per entry for restricted merchandise. We believe USPS experience is roughly similar to the combined experience of express firms.
b. Assumed by authors.
c. Calculated as days saved per entry times number of additional entries times tariff equivalent of 0.4 percent per day times assumed average value of $2,250 per additional entry.
d. Calculated as days saved per entry times number of "unnecessary restricted entries times tariff equivalent of 0.4 percent per day times assumed average value of $300 per restricted entry.
e. Calculated starting with the ratio of estimated additional informal entries by the express firms (0.5 million) plus fewer restricted entires (another 0.5 million) to estimated additional *de minimis* entries (3.8 million). This ratio, namely, 0.26, is then multiplied by the estimated cost savings to express firms from raising the *de minimis* threshold to $800 ($32 million). The result, $8.2 million, is then multiplied by the ratio of time required for employees to process formal entries (4.37 minutes per entry) and the time required for employees to process informal entries (0.91 minutes per entry, assumed to be the same as the time required to process *de minimis* entries).
f. Because USPS faces fewer burdens in processing formal entries than private express firms, we estimate USPS savings as about half express firm savings.
g. Based on the MPF collected from express firms on formal entries ($25 per entry) times the number of express entries in the $2,000 to $2,500 range (0.5 million). Note that cost savings to CBP are equated to revenue loss to CBP.
h.Based on the MPF collected from express firms on restricted entries ($25 per entry) times the number of "unnecessary" restricted entires handled by express firms (0.5 million). Note that cost savings to CBP are equated to revenue loss to CBP.
i. Net gain equals value of time saved to customers plus cost savings to express firms and CBP minus estimated MPF loss.

Sources: Analysis of results of Peterson Institute Survey of Express Shipping Firms and interviews with express firms and CBP.

Table 13 Trade-weighted average tariff equivalent of "time to trade" for exports from the Greater Mekong Subregion and China (percent)[a]

Sector	Cambodia	Laos	Myanmar	Thailand	Vietnam	China
Rice	0.0	0.8	0.6	0.4	0.6	0.4
Vegetables and fruits	2.9	11.0	1.4	25.7	23.3	0.9
Other crops	0.2	0.2	0.2	0.2	0.2	0.5
Animals	0.5	0.5	0.3	1.4	3.5	2.4
Animal products	4.5	2.7	0.0	0.1	0.5	0.8
Other Foods	1.4	23.8	3.9	8.5	4.3	5.5
Forestry	0.2	1.9	0.0	1.7	0.0	0.4
Fisheries	1.1	16.1	1.3	2.0	4.0	7.2
Coal, other minerals	0.1	0.5	4.0	2.4	0.1	2.2
Textiles	1.2	12.1	2.4	6.1	5.9	5.1
Apparel	6.8	12.6	8.9	5.8	9.0	5.2
Leather	8.7	6.8	3.7	3.4	4.3	4.5
Wood and paper	6.2	13.2	9.9	9.4	10.1	5.8
Electronics	10.1	11.0	8.0	4.2	5.9	4.7
Other manufactures	0.5	3.8	0.6	10.5	7.3	6.8
Vehicles	9.4	15.6	10.0	10.0	10.2	10.7

a. The values for some service and extraction sectors are zero and not shown here.

Sources: Strutt, Stone, and Minor (2008) calculations from data in Minor and Tsigas (2008).

Table 14 Trade-weighted average tariff equivalent of "time to trade" for imports into the Greater Mekong Subregion and China (percent)[a]

Sectors	Cambodia	Laos	Myanmar	Thailand	Vietnam	China
Rice	0.6	0.9	0.7	0.3	0.6	0.5
Vegetables and fruits	0.5	0.9	1.7	0.8	1.5	27.9
Other crops	0.1	1.6	5.2	0.2	0.5	0.2
Animals	1.3	0.2	8.9	1.1	6.3	2.5
Animal products	0.2	0.0	0.3	1.7	0.5	0.5
Other foods	12.5	21.8	9.2	5.0	20.3	4.6
Forestry	4.4	0.6	4.5	0.1	1.4	0.0
Fisheries	4.4	9.3	5.3	1.0	2.4	2.1
Coal, other minerals	5.4	18.4	18.5	0.5	4.4	0.7
Textiles	8.6	16.9	9.0	4.2	8.4	6.3
Apparel	12.2	14.1	10.4	4.5	7.5	7.2
Leather	10.4	10.4	8.9	3.1	6.5	3.6
Wood and paper	16.6	15.4	14.6	4.7	13.4	9.3
Electronics	11.7	17.1	13.0	3.7	7.7	4.5
Other manufactures	13.1	21.9	17.5	4.1	14.2	10.9
Vehicles	12.3	23.1	33.7	5.1	15.9	10.3

a. The values for some service and extraction sectors are zero and not shown here.

Sources: Strutt, Stone, and Minor (2008) calculations from data in Minor and Tsigas (2008).

Table 15 GDP gains from 25 percent reduction in time to export or import, Greater Mekong Subregion and China

	GDP gain from export time reduction		GDP gain from import time reduction	
Country	Millions of dollars	Percent	Millions of dollars	Percent
Cambodia	28	0.6	44	0.9
Laos	15	0.6	32	1.3
Myanmar	40	0.5	79	1.0
Thailand	174	0.1	166	0.1
Vietnam	208	0.5	316	0.7
China	336	0.0	371	0.0

Source: Strutt, Stone, and Minor (2008) simulations.

Table 16 *De minimis* thresholds in APEC and key trading partners[a]

Country	Local currency	US dollars
Australia	AUD1,000	1,075
Canada	CAD20	21
Chile	USD30	30
China	CNY400	62
Hong Kong[b]	0	0
Indonesia	USD50	50
Japan	JPY10,000	122
Korea[c]	USD100	100
Malaysia	MYR500	166
Mexico[d]	USD50	50
New Zealand[e]	NZD400	320
Papua New Guinea	n.a.	n.a.
Peru	USD200	200
Philippines	PHP15	0.3
Russia	RUR7,964	283
Singapore	SGD400	324
Taiwan	TWD3,000	104
Thailand	THB1,000	33
United States	USD200	200
Vietnam	VND1,000,000	48

n.a. = not available; APEC = Asia Pacific Economic Cooperation forum

a. The figures are for nonpostal imports (i.e., mainly express firms). Local currency and values are translated in US dollars at exchange rates prevailing on April 21, 2011.
b. Hong Kong applies zero tariff on all imports and thus does not participate in any *de minimis* regime.
c. Korea uses a selective criteria to apply the *de minimis* threshold. As a result, the $100 threshold is not applied uniformly across all firms.
d. Mexico does not apply the *de minimis* threshold uniformly across all firms.
e. The New Zealand *de minimis* entry threshold is expressed in terms of customs duty not collected, which translates approximately into NZ$400.

Sources: Based on current exchange rates and analysis of results of Peterson Institute Survey of Express Shipping Firms and APEC economic representatives; Global Express Association (2011).