



FACT SHEET ON THE DUTY-FREE TREATMENT OF ELECTRONIC TRANSMISSIONS AND ITS IMPORTANCE TO GLOBAL ELECTRONIC COMMERCE AND EXPANDED INTERNATIONAL TRADE

11 October 1999

➤ **Tariffs are a hindrance to expanding international trade in general and to electronic commerce in particular.**

An important goal of the business community is to promote the expansion of electronic commerce and to prevent the creation of trade barriers in the form of burdensome customs duties or tariffs on services and products delivered electronically. Lowering trade barriers, including tariffs, is one of the most obvious means of encouraging international trade as well as global electronic commerce. For 50 years, countries have been moving in the direction of an international trading system as free as possible of such barriers. Commitments in this area make the business environment stable and predictable and give business a clearer view of their future trade opportunities. With stability and predictability as part of the multilateral trading system, trade increases, investment is encouraged, jobs are created, and consumers can enjoy the benefits of competition -- choice and lower prices.

Another helpful step in the process of eliminating tariff is the WTO Ministerial Declaration on Trade in Information Technology Products (ITA). The ITA provides for participants to eliminate customs duties and other similar duties and charges on information technology products by the year 2000. Many of these information technology products facilitate electronic transmission and electronic commerce.

The WTO's Moratorium on the duty free treatment of electronic transmissions *should continue*. This sends a strong message to the international community that WTO Members wish to facilitate the expansion of global trade by not imposing new barriers in the area of electronic commerce. For stability and predictability in international trade in the 21st Century, WTO Members should consider in their ongoing work programme on electronic commerce to move beyond a temporary commitment to a permanent one.

➤ **Expanding Tariff Regimes to Cover Electronic Transmissions Would Be Administratively Burdensome**

Consumer interests are best served when businesses and consumers can choose the most efficient methods of delivering products and services. Services and intangible property can be received online in digitised form. They are received by customers directly from the supplier. They are not subject to customs control nor handled in the traditional sense by an intermediary. They are not tangible products when received initially by customers. The consumer/customer may create a tangible product thereafter, but that is a matter of choice. Accordingly, governments should avoid distorting the delivery choices of businesses and consumers by expanding tariffs regimes to digital products and creating administrative difficulties and burdens that are not easily resolved.

➤ **The Internet and global electronic commerce will not advance if electronic transmissions are stopped at national borders.**

The WTO Moratorium on Customs Duties on Electronic Transmissions recognises that internationally, electronic transmissions are not now considered imports subject to customs duties or border controls. There are no customs duties or border controls on telephone calls across borders; there are no customs duties or border controls on fax messages; and, there are no customs duties or border controls on email or computer links. The WTO's Moratorium on Customs Duties on Electronic Transmissions reflects this status quo and promotes the free flow of information that is essential to the expansion of the Internet and electronic commerce. Electronic transmissions are typically time-sensitive and flow seamlessly across border. To stop these transmissions at borders to impose custom duties would unduly disrupt the business economies that are inherent in electronic delivery.

➤ **Greater use of global electronic commerce will create new opportunities for developing countries and assist in their economic development.**

Electronic commerce has the potential to alter radically some economic activities and the surrounding social environment. The combination of regulatory reform and various technological innovations has progressively reduced barriers to electronic commerce for both buyers and sellers. Earlier forms of e-commerce were mostly custom-made, complex, expensive and the province of large firms. Today, for a few thousand dollars, anyone can become a merchant and reach millions of consumers world-wide. What used to be business-to-business transactions between known parties has become a Web of commercial activities that can involve vast numbers of individuals who may never meet. In this sense, the Internet and electronic commerce have converted a luxury for the few into a relatively simple and inexpensive device for the many in both developed and developing countries.

The best way to ensure long-term economic prosperity, quality services and the continued creation of new jobs is to ensure the future growth of electronic commerce. To fuel the engine driving the emerging digital economy, actions are needed to reduce, not increase, barriers to entry for companies small and large to engage in global electronic commerce.

➤ **A tariff-free zone for electronic transmissions is not a request for no taxes on electronic commerce.**

The request for a tariff-free zone for electronic transactions is based on reducing or eliminating barriers (such as customs duties) to international trade. Business engaged in electronic commerce should be subject to the same direct and consumption tax requirements as their counterpart businesses in conventional commerce. Electronic commerce, as a new medium of doing business, should not be subject to new or additional unique taxes.

Many taxation issues are not new or unique to electronic commerce but have already developed in conventional commerce, which increasingly relies on new modes of communications and increasingly crosses national borders. The mode of doing business through electronic commerce may add new layers of difficulty and may require solutions to the problem of no or double taxation on consumption by private consumers. Any legal obligations should not be restricted to electronic commerce but should apply equally to conventional commerce as well.

Simplicity, clarity, and fairness must be promoted in national tax regimes, in order to allow for the global trading potential of electronic commerce. Tax rules everywhere should be understandable and user-friendly to allow for the potential increase in cross border sales by companies. Applying existing taxation principles in the electronic medium must also be built upon tools that businesses already use or are required to develop to meet their market needs—it is only in this way that high tax compliance can be sustained with the least burden, and the fewest economic distortions.

- o O o -

About the Alliance for Global Business (AGB)

The Alliance for Global Business (AGB, "the Alliance") is a co-ordinating mechanism of leading international business organisations created to provide private sector leadership on information society issues and electronic commerce. Jointly, these organisations represent the bulk of electronic commerce in almost all countries in the world. The coalition represents a diverse cross section of business in over 140 countries. Membership includes providers and users of information technology, large multinational enterprises and small start-ups, and companies in developing as well as developed economies. The AGB's founding members are:

BIAC – Business and Industry Advisory Committee to the OECD (www.biac.org)

GIIC - Forum for the Global Information Infrastructure (www.giic.org)

ICC - International Chamber of Commerce (www.iccwbo.org)

INTUG - International Telecommunication Users Group (www.intug.net)

WITSA - World Information Technology and Services Alliance (www.witsa.org)