



Testimony to the U.S. House Committee on Ways and Means Subcommittee on Trade

Hearing on Modernization of the North American Free Trade Agreement (NAFTA)

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My name is Althea Erickson, and I lead global advocacy and public policy at Etsy, an online marketplace where you can buy handmade and vintage goods from creative entrepreneurs around the world. I'd like to thank Chairman Reichert, Ranking Member Pascrell and members of the Committee for inviting me to speak with you today about opportunities to modernize NAFTA for the 21st century economy.

Etsy is a global creative commerce platform that builds markets, services, and economic opportunities for creative entrepreneurs. On Etsy, millions of people around the world connect, both online and offline, to make, sell, and buy handmade and vintage goods, as well as craft supplies. We host 1.8 million active sellers¹ around the world, who together sold \$2.84B in 2016.

The creative entrepreneurs who sell on Etsy are not the stereotypical businesses you might imagine when considering the exporters who could benefit from global trade agreements. The vast majority of Etsy sellers at businesses of one, working out of their homes. Fully 87% of our sellers are women, and 28% live in rural areas, compared to just 17% of U.S. non-farm business owners.

In many ways, Etsy functions as an on-ramp to entrepreneurship. For 53% of our sellers, Etsy was the first place they sold their goods, a number that increases for young sellers and those with children at home. Nearly a third of our sellers operate their creative business as their sole occupation, and for the rest it's an important source of supplemental income, contributing an average of 13% of annual household income.² Nearly half of sellers use this income to pay for necessary household expenses, including utility bills and rent.

Etsy was founded in 2005, sixteen years after the North American Free Trade Agreement (NAFTA) took effect. Since the implementation of NAFTA, the internet has made it possible for creative entrepreneurs to use platforms like Etsy to connect with buyers around the world. Unfortunately, existing trade laws have not kept up with the growth of global e-commerce and the opportunities it provides to microbusinesses.

¹ As of March 31, 2017.

² Etsy. *Crafting the future of work: the big impact of microbusiness*. 2017.

Many Etsy sellers begin exporting goods from the moment they open their shops. As of March 31, 2017, 32.1% of gross merchandise sales on Etsy involve a buyer or a seller outside the United States. Fully 44% of Etsy sellers in the US are international exporters in their own right, and 55% of sellers who focus on their creative business as their sole occupation ship their wares internationally. Unfortunately, the US is the key only market where the majority of Etsy sellers do not ship their goods to other countries. For example, 88% of Canadian Etsy sellers ship internationally.

Most independent, creative businesses lack the infrastructure and information to navigate complicated international trade rules. Customs and duties vary by country, and credible information about each country's requirements can be difficult to find. Packages are often delayed in customs or subject to unforeseen import taxes that the buyer must pay before receiving their package. Package tracking often stops at the border, creating unnecessary friction in international transactions. In the face of these challenges, buyers may reverse transactions or request refunds, the cost of which the seller often bears.

Historically, trade rules and regulations have enabled larger, more established companies to bring their products to new markets. However, innovative programs that seek to streamline and simplify exporting like the trusted trader program or the Single Window simply aren't relevant to a single person selling one item to another person in another country. We see an enormous opportunity to modernize NAFTA to foster digitally-enabled, microbusinesses exports. By focusing on the needs of our smallest exporters, we could set new global standards for peer-to-peer trade around the world.

The single greatest opportunity to support microbusinesses would be to negotiate a higher low-value customs exemption with our trading partners. Thanks to the Trade Facilitation and Trade Enforcement Act of 2015, the US de minimis threshold is now \$800, which eases burdens for US micro-businesses processing returns and purchasing supplies. However, Canada and Mexico have some of the lowest de minimis thresholds in the world of \$20 and \$50 respectively.³ As a result, low value goods from US exporters often end up subject to unexpected fees or delays at the border. The upcoming NAFTA negotiations provide an opportunity to alleviate this burden that disproportionately impacts US micro-exporters.

In addition to burdensome customs and duties, e-commerce regulations vary widely between countries. Discrepancies in the categorization of goods, as well as consumer protection or privacy laws pose a challenge for individual sellers, who must find relevant information on requirements for each country before shipping an item. Unlike a traditional retailer, who can research rules before deciding to enter a market, the typical e-commerce seller makes her product available to buyers worldwide, and begins researching the rules after the product is sold, when she is under considerable pressure to mail the good quickly.

Navigating the various websites and interfaces to find credible information is an administrative struggle for an Etsy seller that is hungry to comply with the rules. Currently, customs brokers help larger exporters navigate these complexities, but a business of one exporting a \$30 item simply doesn't have the means to engage those services. We urge negotiators to create a far smaller, simpler set of harmonized tariff codes for low-value goods, and make information about all import/export rules easy to access—for example, through an open API.

Finally, we believe a modernized NAFTA agreement should include a small and micro-business chapter. The TPP was the first trade agreement that included a small business chapter, but the contents of that chapter focused mainly on opportunities to educate small business, rather than address the substantial barriers these exporters face to trade, such as an increased, universal de minimis customs exemption. Such a chapter might also enable negotiators to align around a shared definition of micro-business - for example a business with fewer than 10 employees - paving the way for future programs that specifically address this constituency's needs.

The changes we seek for our sellers may seem small, but they would have a huge impact on e-commerce and the day-to-day operations of a microbusiness owner. We are confident that a newly negotiated NAFTA can help Etsy sellers succeed in the global marketplace, and set the standard for future trade deals. I thank you for the opportunity to address you today, and welcome any questions you may have.

³ The threshold in Canada is \$20 CAD, and Mexico's threshold is \$50 for express shipments and \$300 for postal shipments.