

Electronic Commerce - The Future is Now

Report on Electronic Commerce - The Future is Now

**Deloitte &
Touche**

A symposium jointly sponsored by
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Introduction

Commerce over the Internet is booming and it is poised to skyrocket. Industry analysts are unanimous in that view as is the Government of Canada which has identified electronic commerce as a priority area for the immediate and near future. Electronic commerce is a prime enabler and stimulator of economic growth and the Canadian Government wants Canadian business to be well positioned to take advantage of the opportunities as they arise.

With an excellent communications infrastructure and high penetration of the Internet into its business and general population, Canada is currently well positioned and has taken a lead role in stimulating and regulating the Internet within the international community. But this advantageous position is only relative and could be short-lived unless concerted, continuous and deliberate efforts are made to upgrade Canada's position. Things move quickly on the Internet (as characterized by the Internet "year" which is 47 days in the "real" world). The United States are already pulling ahead of the others and any OECD country has the potential to win the race to real-world prosperity through the virtual world of the Internet.

The symposium, which is the object of this report, was organized in partnership by Industry Canada and Deloitte & Touche. It is an example of the efforts being deployed to communicate the potential of the Internet, to stimulate interest in the opportunities and to promote growth of Canadian business. The conference drew together representatives from Business, Academia and Government, who are developers or current and potential users of the Internet, to encourage the kinds of interaction and linkages which catalyze growth, progress, and partnerships.

The following report summarizes the discussions. It starts with an executive summary and wrap-up and is followed by more details on the presentations. Inquiries may be addressed to: Marie-France Remy, Industry Canada, remy.mariefrance@ic.gc.ca ; Gin Jang, Industry Canada, jang.gin@ic.gc.ca ; or Deborah Sterritt, Deloitte & Touche, dsterritt@deloitte.ca .

Executive Summary

The Objectives

The objectives of the symposium were as follows:

- To examine the matters discussed at the OECD (Organization for Economic Cooperation and Development) Ministerial Conference on Electronic Commerce held in Ottawa in October of 1998 and present the recommendations and action plan issued at the conference
- To present the Canadian Electronic Commerce Strategy
- To present the firsthand experiences of leading electronic commerce companies in developing and marketing their products and services over the Internet
- To explore the opportunities and challenges of the Internet
- To discuss key issues pertaining to the electronic commerce environment

The Salient Points Presented by the Panelists

The Internet and business on the Internet is growing by leaps and bounds. From \$US 50 billion in 1998, global commerce over the Internet could achieve a high-growth scenario of \$US 3.2 trillion by 2003.

This phenomenal rate of growth could, in large part, be due to the fact that the Internet is gaining the acceptance of the general public much faster than any other communications medium in history. To reach a base of 50 million users it took radio 39 years, 12 years for television and only four years for the Internet. This potential and rapid acceptance explain the earnestness with which the Internet is treated at all levels of Government and the private sector.

OECD Ministerial Conference

The member countries of the OECD agree that electronic commerce should be encouraged as it presents enormous potential for stimulating economic activity. It is generally agreed that the best way to stimulate commercial activity over the Internet is to let the private sector take the lead and not hamper their activities with unnecessary regulation. This means harmonizing international policies and regulations. More information on the Ottawa OECD ministerial conference can be found at: <http://www.noie.gov.au/oecd/overview1.html>

The OECD wants to develop coordinated policies which will encourage and stimulate electronic commerce while ensuring the benefits are spread as widely as possible throughout the general population.

The OECD members agree that the borderless environment created by the Internet will create distinct regulatory and taxation challenges but it is granted that where current regulations work they will be left in place to minimize confusion.

The OECD ministerial conference on electronic commerce concluded with a plan to act in four priority areas:

- 1) Taxation agreements
- 2) Protection of privacy
- 3) Protection of the consumer
- 4) Authentication

The Canadian Strategy

Of the estimated 150 million people connected to the Internet worldwide, more than 75 million are in the United States and Canada. One third of Canadian firms are already doing business over the Internet. Canada represents 7.5 per cent of world economic activity over the Internet. This compares favourably to its 3 per cent share of global economic activity.

The Canadian Government has taken the lead in developing policies which will encourage and regulate commercial activity on the Internet. Its stated objective is to make Canada a world leader in electronic commerce by the year 2000. This lead has also given Canada an influential role in the Internet-related negotiations and activities of the OECD. The activities of the Government's Electronic Commerce Task Force were described as a "home run" by a representative of the private sector. ***Canada is the only OECD member which will have a comprehensive electronic commerce policy in 1999.***

The Canadian Government has identified priority areas for action which include:

- 1) Acceleration of Internet usage
- 2) Stimulation of supplier development
- 3) Increased market linkages and integration

Canada's enviable position as an Internet front-runner is not only due to timely Government action but also to the collaboration of the private-sector in initiatives such as CANARIE Inc. Through the CANARIE program, the Federal Government, business competitors and the research community have found a way to cooperate on developing the information highway in Canada. As a result and to their mutual benefit, all are better positioned for competition in the global marketplace.

Experiences, Opportunities and Challenges

Taxation is a major challenge facing governments and the private sector. As commerce on the Internet grows, governments will want to protect their revenue streams and taxation bases. The private sector will want to ensure minimum exposure - a potentially difficult objective given the current complexity of tax jurisdictions (30,000 in the United States alone) and the added intricacies of Internet-based commerce.

Electronic commerce is business. Consequently, ***e-commerce should be the responsibility of the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) and not only that of the Chief Information Officer (CIO).*** Too often, doing business on the Internet is viewed as simply a technical issue when it should be given the same regard as any other core business process.

Disintermediation poses a challenge to the private sector and to governments. As business embraces the opportunity, afforded by the Internet, to eliminate or reduce the use of intermediate agents these same agents must find new ways to redefine their added value if they are to survive. For governments, the loss of intermediaries reduces tax collection points. Disintermediation is changing the wholesale and distribution industries - the most common intermediate agents.

One of the principal challenges facing business is adapting to the current pace at which the Internet is evolving. ***It is estimated that 47 days in the virtual environment of the Internet is equivalent to a full year's progress in the "bricks and mortar" world.*** In this context, bad news must travel fast. If you are not satisfying your customers, you must quickly find out about it. To thrive doing business on the Internet, you must adapt at its pace.

Better on-line shopping will define the next "killer" application. The Internet is rapidly attaining a "critical mass" of shoppers. Last Christmas, one million people shopped the Internet for the first time through AOL (America On-Line). Christmas shopping over the Internet amounted to \$4 billion in the US last year.

A well established PKI (Public Key Infrastructure) is a key enabler for pushing the Internet to its critical mass. The PKI and PKC (Public Key Cryptography), its sister technology, will create the environment of confidence which is a condition of universal acceptance of conducting business (involving an exchange of money or not) on the Internet.

Because of the equalizing effect of the Internet, competition is no longer between products but between business models. Thus, irrelevance becomes a bigger problem than inefficiency.

The Y2K bug is currently draining scarce resources away from Internet business activity. Once problems are solved, it is expected that businesses will put the extra resources available to them into adapting their business models to electronic commerce.

Conclusion

It seems probable that, within a few short years (perhaps as early as 2003), one tenth of the world's business will pass over the Internet. This prediction alone should be enough to signal to Business and Governments that it is urgent and imperative to have a clear strategy for embracing the potential of the Internet.

The Federal Government has declared its intention of seeing Canada become a leader in electronic commerce by the year 2000. Coupled with the fact that Canada is already well positioned coming out of the starting gate, this is good news. But good news tempered by the reality that fully two thirds of Canadian businesses have not yet come to the realization that the Internet cannot be ignored in their future business strategies.

The Internet is changing everything and Business and Governments should take heed because the competition is paying attention.

Overview of the Presentation

Canadian Electronic Commerce Strategy -

Michelle D'Auray,

Executive Director,

Industry Canada's Electronic Commerce Task Force - Keynote Speaker

The goal of the Canadian Electronic Commerce Strategy is to make Canada a world leader in electronic commerce by the year 2000.

This is based on the premise that future economic growth and prosperity are linked to merging the economy with the information highway. This is consistent with the trend to the globalization of markets and the shift to a knowledge-based economy.

Electronic commerce is defined as business activities that are enabled by advanced information networking. Such business activities can include: on-line product and service delivery; on-line government services; on-line information and promotion; electronic data interchange; cybershopping; electronic financial transactions; and supply-chain integration. Electronic commerce is much more than selling over the Internet.

To win the global race for leadership in the electronic commerce marketplace, it is essential to have a national vision and to secure key partnerships. And, it is vital to move fast. With the rapid pace at which the Internet evolves, speed wins.

Canada has a two-part strategy for attaining its objectives: a domestic strategy and an international strategy.

On the domestic front, the Prime Minister released the Canadian Electronic Commerce Strategy on September 22, 1998. The strategy builds on encouraging the increasing use of the Internet by Canadians to the point where they constitute a mass market which is attractive to content suppliers, advertisers and business. The mass market threshold is defined at just under 3 million

Canadian households plugged into the Internet. A number that was reached in late 1998.

To tap into the \$US 3.2 trillion Internet market which is predicted for 2003, Canada must act within the next 12 to 18 months.

The areas for action which have been identified include:

- 1) building trust in the digital marketplace through initiatives such as privacy and consumer protection policies and suitable cryptography;

- 2) clarifying the marketplace rules in areas such as taxation, intellectual property and the legal and commercial framework;
- 3) strengthening the information infrastructure by ensuring network access and availability and the adoption of standards;
- 4) developing the market and realizing the benefits through increased public awareness, continued growth of electronic commerce and by governments setting the example as model users.

Canada is currently well positioned. By the middle of 1999, it will be the first among the G-7 countries to have a comprehensive electronic commerce policy framework including:

- 1) a cryptography policy released October 1, 1998;
- 2) the principle of tax neutrality which was adopted in September of 1998;
- 3) a privacy act which was presented as Bill C-54 October 1 of 1998;
- 4) guidelines on electronic signatures also included in Bill C-54;
- 5) voluntary guidelines for consumer protection;
- 6) the world's first comprehensive policy on a Public Key Infrastructure;
- 7) and a roadmap for domestic and international standards.

The use of electronic commerce in Canada is on the rise and Canada has its share of electronic commerce pioneers to point to but, the rate of adoption of electronic commerce is too slow. ***Barely one third of Canadian firms are currently using electronic commerce and surveys show that only half of Canadian firms feel the need for adopting electronic commerce.***

The goal of the domestic strategy is to realize the benefits of electronic commerce. With the key policy framework in place the challenge is to increase the development and use of electronic commerce in Canada. The focus for market development will be on a growth strategy for suppliers and users.

In the international forum, the focus is on working with other governments and multilateral organizations to develop and implement an international framework that centres on the removal of barriers to trade, gives priority to electronic commerce "enablers", and maximizes the economic and social benefits for all.

The primary fora for action in 1999 are:

- 1) the FTAA E-Com Experts Group that will meet in August of 1999;

2) the WIPO (World Intellectual Property Organization) e-com conference slated for September 1999;

3) an OECD meeting, scheduled for October 1999, to monitor progress on the action plan put forth by the Ministerial conference held last Fall in Ottawa (more on this conference below);

4) and the WTO (World Trade Organization) Ministerial conference on electronic commerce planned for November 1999.

The OECD action plan, an outcome of the first OECD ministerial conference on electronic commerce held last Fall in Ottawa, concentrates on four principal areas:

- 1) taxation;
- 2) protection of privacy on global networks;
- 3) consumer protection;
- 4) and authentication schemes for electronic commerce.

Business, labour, and social interest groups were party to the conference and supported the conference conclusions.

The Electronic Business Tidal Wave -

Adel Melek,

Partner, Deloitte & Touche

There is an electronic business tidal wave approaching. This wave will be bigger, even, than the projected dollar figures since electronic business refers to all sorts of business exchanges not just those involving an exchange of money.

The Internet has been described as the most important invention of the past 500 years. Already, the Internet has penetrated faster than any other communications technology. It took radio 39 years to achieve 50 million users. Television attained the same user base in 12 years. The Internet took only 4 years.

The Internet promises to fundamentally change the way we do business and the way we communicate because it allows certain "laws" to be broken. One such generally accepted principle is that the ability to reach large numbers of customers is directly proportional to wealth. The Internet has broken that "law"

by putting the potential of reaching mass audiences into the hands of anyone who knows how to exploit the Internet.

The Internet is also shifting power from the seller to the buyer since the buyer also has access to large numbers of suppliers. The Internet acts like the market - having great influence in determining value. However, on the Internet, the economies of scale are changing to economies of scope.

Business on the Internet is not about technology. It's about business. This means the responsibility for electronic business must rest upon the CEO and COO and not the CIO. They must determine the digital model applicable to their activities keeping in mind the needs of clients and partners and the potential of the Internet. What clients need is what clients have always wanted and now are coming to expect because of the Internet.

This includes:

- enhanced products;
- better service 24 hours a day, 7 days a week;
- faster delivery and lower costs.

Already, many corporations and governments are recognizing the strategic value of the Internet including high profile organizations like the Government of Canada, Bell Canada, and Scotiabank. They have understood that early recognition of the opportunities and by the Internet community are important ingredients to success.

Managing Tax in a Changing World -

Jay Niederhoffer,

Partner, Deloitte & Touche

There are two important points to retain when considering the tax implications of doing business over the Internet:

- 1) without proper planning, the tax consequences of even simple commercial activity over the Net can be as complicated as a large multinational corporation;
- 2) but, with proper planning, the burden can be managed, uncertainties minimized, pitfalls avoided and planning opportunities identified.

Broadly defined, e-business is the delivery of information, products, services, or payments by telephone, computer or other automated media.

In terms of the \$30 trillion annual global production, the revenues generated through the Internet are small but, they are growing exponentially. The following statistics illustrate the point:

- 150 million people were on-line as of January 1999 - double the number for 1998.
- Internet traffic is doubling every 100 days and the total available bandwidth is increasing by 300 per cent on an annual basis to accommodate it.
- Internet commerce is doubling annually and could exceed \$1 trillion by 2002.

This staggering growth can be attributed, in part, to the borderless character of Internet activity. There are few barriers to entry, a physical presence is not required and the need for intermediaries can be reduced or eliminated.

There are three principal sources of exposure when it comes to tax management. *Firstly*, who has the jurisdiction to tax the transaction? Failing to clearly identify, to the satisfaction of all parties, the appropriate taxing jurisdiction can give rise to double taxation.

The second concern is the characterization of income from the transaction. Different jurisdictions may treat the income differently. For example, in the country of use, the payment may be considered a royalty, giving rise to non-resident withholding tax, whereas in the country of supply it may be treated as a service or a sale of goods. Differing regimens can give rise to different tax treatment.

Thirdly, there is the difficulty in identifying tax obligations at a state and local level and coping with the compliance burden. The taxes at this level include state income and sales taxes. It is easy to overlook a tax or filing obligation at the sub-national as there are so many jurisdictions each with its unique set of rules.

To business the risks are twofold. There is the possibility of taxable situations not being adequately identified and administered. As well, there is the collateral loss of planning opportunities to avoid obvious pitfalls and minimize the effective tax rate. ***Minimizing the tax burden translates into competitive advantages.***

Currently, there is no roadmap for taxation of Internet-based commercial activity. Although governments are heading in the right direction due, in great part, to the positive Canadian influence there are conflicting agendas. For example: technology importing states (which generally depend more heavily on sales taxes) vs. technology exporters (which generally depend more heavily on income taxes).

The risks to governments include lost tax revenues through:

- limiting the growth of the electronic business economy if proper guidance is not provided;

- disintermediation;
- non-reporting;
- underground transactions;
- and leakage through the loss of the tax base.

In the end, the electronic business opportunities - lower costs, reduced need for intermediaries and capital infrastructure and reduced need to physically locate near the customer - will prevail. This is essentially what the OECD governments have said by declaring that the private sector must drive the electronic business sector.

Electronic Commerce at Revenue Canada -

Walter Szyg,

I/Director,

Tax Avoidance and Legislative Recommendations Division,

Audit Directorate, Revenue Canada

From the point of view of Revenue Canada, the phenomenal opportunities afforded by the Internet are somewhat counterbalanced by the challenges of working in a virtual environment.

The following points and facts illustrate the challenges:

- in the United States alone there are some 30,000 tax jurisdictions;
- there are the legislative uncertainties;
- verifying the identity of parties and establishing their business locations;
- the characterization of income;
- the disappearance of traditional audit trails due to the elimination of paper through electronic transactions;
- disintermediation;
- the possibility of electronic tax evasion;
- and defining what is acceptable documentation.

On the other hand, Revenue Canada also sees the opportunities for direct deposit programs, electronic filing, automated payroll deductions and for improved exchange of information.

The Department's response has been consultative. The Minister's Advisory Committee on electronic commerce was put in place and a specialized e-commerce group was created in Ottawa. Revenue Canada is working closely with business and professional organizations and participates in various international forums.

Four of the principles which guide the activities of the Department are:

- 1) the private sector should lead the development of electronic commerce;
- 2) minimal regulation;
- 3) hard and soft goods should be treated equivalently;
- 4) and governments should be model users.

At last Fall's OECD Minister's conference a taxation framework was adopted along with a two-year workplan.

The five general principles of the OECD taxation framework are the following:

- 1) Neutrality
- 2) Efficiency
- 3) Simplicity
- 4) Flexibility
- 5) Effectiveness and fairness

The report of the Minister's Advisory Committee, formed of 16 experts and senior advisors from the public and private sector, has been published on the Revenue Canada website: <http://www.rc.gc.ca>

The report outlines implementation options relating to areas such as taxpayer services, consumption taxes and tax compliance.

The Minister responded by saying that Canada's existing taxation rules are adequate to support the principles and recommendations of the report and that existing laws will be applied where they work. Consequently, *there will be no new taxes and no new reporting*. In addition guidelines on e-commerce will be provided, a communications strategy for unintentional non-reporting will be developed and the Department will improve its own electronic services.

Finally, the Department will monitor the impact of electronic commerce on Canadian tax bases.

The Next Killer Apps for Electronic Commerce -

Andrew Coulson,
ICU Sales and Marketing Manager,
Microsoft Canada Inc.

The Internet is a complex environment in which to do business. It is a digital nervous system which makes knowledge workers of all employees and customers must be at its centre.

To rate your company's Anervous system@ two questions must be asked:

- 1) can everyone access it?
- 2) and, does bad news travel fast?

The strength of the Internet is improved information interchange. Employees at all levels, customers, and partners must be part of the exchange. A corollary, of this, is that bad news must travel fast.

The Internet moves fast. If you are not meeting customers' needs they will quickly find alternatives. Consequently, it is urgent to find out as quickly as possible when a customer is dissatisfied, disappointed, disgruntled, or discontented.

Better on-line shopping will define the next "killer" application on the Internet. The Internet doesn't currently browse well. There is no guarantee that someone looking for a particular good or service will find all the options available. The real potential of the Internet is in letting the customer specify his or her needs and matching that with the products which meet them or come closest. Better on-line shopping is a better way of connecting buyers to sellers. In this vein, Microsoft recently acquired a product which will shop the Internet to look for suitable products and services based on consumers' criteria.

An important aspect of a better connection between buyer and seller is trust. To this end, Microsoft will introduce a product by the end of 1999. Based on the industry standard XML crypto key it will act as a passport which allows parties to mutually identify themselves with a high degree of confidence.

Better on-line shopping also means making the transaction process as digital as possible from end to end. When possible, physical goods should become digital (e.g. music, videos, books).

Billing and payment should also be digitized. This *will be the killer application within the killer application (better on-line shopping)*. In the United States alone, 15 billion paper bills are received yearly. Enormous savings in time and money can be realized if this process were to become electronic.

At Microsoft, electronic commerce has become a prime focus. The strategy is to integrate, build and promote. Microsoft will rely heavily on portal sites for promotion as these sites are the principal entry points to the Internet thus ensuring high traffic volumes.

The Role of PKI in Electronic Commerce -

Brian O'Higgins,

Executive VP,

Chief Technology Officer, Entrust Technologies

Trust is the foundation of electronic business. In any e-business transaction it is important to know who you're dealing with and to know that your information is protected from compromise.

Low level security, such as is provided by passwords, is sufficient for transactions of a low dollar value but not when large amounts are involved. A Public Key Infrastructure (PKI), based on advanced cryptographic techniques, is indispensable to providing the security required for all types of business transactions.

PKI can deliver applications such as digital signatures which ensure that not a single bit of information can be changed in an electronic document once it has been accepted. An essential application in cases where contracts, engineering, architectural or any other official documents are involved. A related aspect is non-repudiation. If digital signatures are applied to documents, it is requisite that the parties applying the signatures not subsequently be able to claim that they were not the ones endorsing the documents.

PKI establishes the identity of an interlocutor through a digital certificate which becomes that person's passport for all manner of interactions on the Internet which require a certain level of confidence. The certificate establishes trust but can also protect the privacy of the holder of the certificate since it is the certification authority which has access to protected information. The certification authority can be within an organization or can be a trusted third party.

PKI has a number of advantages. For example:

- Digital certificates centralize the security access function. If an employee leaves a company's service, for example, revocation of access implies simply rescinding the certificate.
- PKI is scalable and once the technology is implanted the cost of issuing additional certificates is low.

The market for security products for the Internet is growing at 130 per cent annually and is expected to reach \$1.1 billion by 2001. Financial institutions have been early adopters and Canada

has some good examples to point to. ScotiaBank is currently the leading user in the world with some 100,000 users.

PKI has privacy implications and Canada is ahead of other OECD countries with its legislation.

The E*TRADE Experience -

Colleen Moorehead,

President,

E*TRADE Canada

E*TRADE is an example of business success on the Internet. E*TRADE Canada, a licensee of the American company based in Palo Alto California, is the first of an alliance of 32 countries.

Having no "bricks and mortar" base, E*TRADE exists solely on the Internet. E*TRADE Canada has a domestic infrastructure but benefits from E*TRADE's lead brand in on-line investing. The company also has access to E*TRADE's proprietary systems and can capitalize on its marketing expertise.

E*TRADE has built its success on providing its customers more control over their trading activities within a self-help environment and at a flat rate of \$27 per trade. For E*TRADE customers it's a matter of control. The formula has been successful with 1.1 million customers currently trading on-line.

Business on the Internet is poised to explode. A telling sign is that the 1998 Christmas season marked the first time that one million people shopped AOL (America On-Line). The limiting factor, as more and more people get on-line, is trust. People need to feel secure and protected.

There are two types of concerns. There are those worries based on a lack of knowledge and those based on a good level of knowledge. A combination of appropriate business practices, suitable technological solutions, and a proper regulatory environment is needed to alleviate the fear of purchasing goods and services over the Internet.

A History of Ingram Micro's Journey Into E:Business -

Mary Whittle,

Vice President, Marketing,

Ingram Micro Inc.

On the Internet, competition is not between products but between business models and irrelevance is a bigger problem than inefficiency.

The phenomenon of disintermediation, brought about by the Internet, is a bullet aimed at the wholesale industry. Coupled with driving factors such as, rapid technology advances, falling prices for technology products, and decreasing profit margins at all levels of the distribution channel, the phenomenon has forced Ingram Micro to review its competitive position.

The situation is exacerbated by the fact that *47 days of activity in the virtual world of the Internet are equivalent to one year's activities in the world of bricks and mortar*. The Internet moves that fast and business must react just as quickly or be overcome.

Ingram Micro reconsidered its value proposition and concluded that there is still room for intermediaries on the Internet.

The Internet is an environment of customer-driven sales - where the customer wants as much control as possible over the transactions and wants to self-serve.

Ingram Micro has redefined its niche by thinking in terms of e-business rather than e-commerce (e-business is all interactions that make up the business relationship while e-commerce concentrates on the exchange of money). This meant putting the emphasis on the business management process as opposed to putting the energy in "code" and by better managing the information and product flow in its demand chain.

Ingram Micro has been successful. By providing customers with the information they need to make decisions and in the format they want it, Ingram is now getting some 3,400,000 hits per month on its Web site which translates into 564,000 page views. This success has meant that one in three calls into the company now results in an order - up from one in five calls.

But Ingram Micro does not intend to rest on its laurels. They are heeding Bill Gates' warning that the hottest and most dangerous business models are on the Web.

CLOSING REMARKS -

Dr. Andrew Bjerring, President & CEO, CANARIE

Dr. Bjerring presented the following wrap-up as part of his closing remarks:

The Challenge

- Globalization, Shift to Knowledge-Based Economy and ICT advances are among the key drivers of e-commerce.
- The value of e-commerce in Canada is expected to reach \$80-115 billion by 2003.
- Fortune 500 companies are rapidly moving into the electronic business environment on the Net.
- Digital transactions are borderless - do not require physical presence and can eliminate barriers to trade and commerce.

- For Governments there is a potential challenge to their tax bases; for example disintermediation reduces tax collection opportunities, tax evasion opportunities are growing and working from tax havens is becoming more attractive and feasible.

The Internet is Changing Everything!

Why Should You Care?

- Business rules were created in a pre-digital world
- Without planning, double taxation is a real possibility
- Tax rules vary by country and sub-national region
- Power is shifting to the buyer, and your customers' options are increasing

Your competitors care!

Government's Initial Response

- Advisory Committee submitted report on taxation with recommendations that included: private sector should lead; Canada should strive to be a world leader; should apply existing law before changing it, and consult, consult, consult.
- In the last eight months, after extensive consultation, including the report from the Advisory Committee, Canada has published both domestic and international e-commerce strategies.
- OECD Ministerial in Ottawa generated a key taxation framework agreement and declarations on privacy, consumer protection, and authentication.
- WTO/WIPO/FTAA etc. active in addressing international challenges - from removing barriers to trade to addressing key e-commerce enablers to identifying ways to maximize economic and social benefits for all.

The Federal Government has adopted the goal of making Canada a world-leader in e-commerce by the year 2000!

No new taxes; no new reporting requirements!

The Bad News

- Only half of Canadian firms feel that an e-commerce strategy is needed
- Those "not really" on the Net are already behind
- E-Business is first and foremost about business, not technology - redrafting the business strategy is needed
- Without planning, becoming active in e-commerce can generate tax implications that are as painful and difficult as those of a large multi-national's. Some of the questions that business should consider are: Where are your servers located?; What features do they offer?; What is the precise nature of your digital, software-like product?; When does a product become a service?; What are the tax withholding rules, tax filing rules and penalties in sub-national regions?

There are 30,000 tax jurisdictions in the United States alone!

The Good News

- 54% of the on-line world is in North America
- Canada has strong e-commerce pioneers: Nygard, Canadian Tire, Chapters, Scotia Bank, E*Trade, Bid.com, Canada Post, Bell, Ontario Hydro (Genco) etc.
- With planning, the tax implications of doing international e-business are manageable
- The Federal Government is committed to accelerating the adoption of e-commerce by business and consumers and to working with business on the framework
- Electronic billing could/will be the next killer application (\$US 26.5 billion potential)
- Standards are evolving to provide key infrastructure for e-commerce (XML, PK cryptography, transferable logon (e.g. PassPort), etc.)

In a word

- Bad news must travel fast
- The new main-street address for businessY Portal Presence

- It's all about communities of interest
- Your window of opportunity is 12-18 months (8-12 Web years)
- Canada has hit a home run with its cryptography policy
- On the Internet, if it can happen it will happen
- We're using the Web for everything
- All of us are looking for control and unbundled costs
- Anyone forming a new Internet-based business has the opportunity to turn the industry on its ear
- The hottest new business models are on the Web
- Excelling in e-commerce is a strategic imperative
- Think e-business not e-commerce

A lot has to be done!

The following is a brief overview of CANARIE.

CANARIE Inc. is a not-for-profit, industry-led and managed consortium which was created in 1993 as an innovative way for the federal government, the research community and the private sector to collaborate in stimulating the development of the Information Highway in Canada.

CANARIE's mission is to facilitate the development of Canada's communications infrastructure; stimulate next generation products, applications and services; and, communicate the benefits of an information-based society. CANARIE fulfils its mission through its three core programs: Advanced Networks, Applications Development, and Outreach.

CANARIE has over 120 fee-paying members, from the telecommunications, broadband technology, and computer sectors, as well as the university and research communities. CANARIE has a 26 member Board of Directors, with thirteen members each from the private and public sectors.

CA*net 3

As part of its commitment to advancing the information highway in Canada, CANARIE has undertaken the funding and deployment of several major networking initiatives in Canada. In February 1998, the federal government announced a \$55 million commitment to CANARIE to build a national optical Internet network. The new optical Internet network is intended to be a testbed to showcase Canadian industry capability in next generation Internet products and services and, in parallel with CA*net II, to provide a network for the support of research and education.

This high performance network is the world's first national optical Internet - a next-generation Internet backbone for research and development that will revolutionize telecommunications technology and help Canada retain its leadership position in this highly competitive industry.

Built from the ground up, this fibre optic network will deliver up to 40 gigabits per second capability, faster than any other existing commercial Internet in the world.

CANARIE Inc. has selected the Bell Canada consortium as its partner for the deployment of the core national network. The consortium includes CISCO Systems, JDS Fitel, Newbridge Networks and Northern Telecom Inc. (Nortel).

CANARIE and Industry Canada will soon announce Phase III funding.

Conclusion

It seems probable that, within a few short years (perhaps as early as 2003), one tenth of the world's business will pass over the Internet. This prediction alone should be enough to signal to Business and Governments that it is urgent and imperative to have a clear strategy for embracing the potential of the Internet.

The urgency stems from the incredible speed at which the Internet is evolving. Forty seven days on the Internet are equivalent to a full year of activity in more typical business pursuits. This speed translates into the danger of being quickly left behind unless there is clear and concerted action on the part of Government and Business.

Already the Internet has proven to be a prime economic growth enabler and a source for future economic prosperity in a world economy that is driven by knowledge. The Canadian Government has recognized this and has identified the sector as strategically important to Canadians and their well being.

The Federal Government has declared its intention of seeing Canada become a leader in electronic commerce by the year 2000. Coupled with the fact that Canada is already well positioned coming out of the starting gate, this is good news. But good news tempered by the reality that fully two thirds of Canadian businesses have not yet come to the realization that the Internet cannot be ignored in their future business strategies.

The Internet is changing everything and Business and Governments should take heed because the competition is paying attention. Through symposiums such as Electronic Commerce - The Future is Now the Federal Government along with key private sector partners is attempting to draw attention to the opportunities and challenges of the Internet.

According to an advertising adage, a message must be often repeated if it is to have any impact. Industry Canada and Deloitte & Touche are committed to repeating the message of the Internet's potential at every opportunity.

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