Australian Government

Productivity Commission

PRODUCTIVITY COMMISSION

ECONOMIC STRUCTURE AND PERFORMANCE OF THE AUSTRALIAN RETAIL INDUSTRY PUBLIC INQUIRY

MR P. WEICKHARDT, Presiding Commissioner
MS L. SYLVAN, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON TUESDAY, 6 SEPTEMBER 2011, AT 9.01 AM

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MR WEICKHARDT: Good morning, ladies and gentlemen. Welcome to the public hearings for the Productivity Commission's National Inquiry into the Economic Structure and Performance of the Australian Retail Industry following the release of the draft report early in August. My name is Philip Weickhardt, I'm the presiding commissioner on this inquiry, and my fellow commissioner is Louise Sylvan. The purpose of this round of hearings is to facilitate public scrutiny of the commission's work and to get comment and feedback on the draft report. Following these hearings in Melbourne, hearings will also be held in Sydney on 12 and 13 September. We will be working towards completing a final report to government in early November, having considered all the evidence presented at the hearings and in submissions, as well as other informal discussions.

Participants in the inquiry will automatically receive a copy of the final report once released by government, which may be up to 25 sitting days after completion. We like to conduct all hearings in a reasonably informal manner but I remind participants that a full transcript is being taken. For this reason, comments from the floor cannot be taken but at the end of the proceedings for the day, I will provide a brief opportunity for people wishing to make a brief presentation.

Participants are not required to take an oath but should be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions. A transcript will be made available to participants and will be available from the commission's web site following the hearings. Submissions are also available on the web site.

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Our first participant this morning is the Post Office Agents Association. If you could just give your name and the capacity in which you're appearing and then if you'd like to give us a brief highlight of the points you want to raise, assume we've read your submission and we'll then have a discussion. Thank you.

MR KERR (POAAL): Very good. My name is Ian Kerr. I'm the CEO of the Post Office Agents Association Ltd. I do have a short opening statement to make and I'll be happy to take any questions.

MR WEICKHARDT: Thank you.

MR KERR (POAAL): The Post Office Agents Association Ltd or POAAL for short is the national association that represents the owner-operators of licensed post offices. There are 3000 LPOs across Australia, making up about 80 per cent of Australia Post's post office network. POAAL also represents mail contractors who deliver mail under contract for Australia Post.

Our members are all small business owner-operators who have invested heavily financially and personally in the Australia Post retail network by purchasing an LPO. LPOs are purchased on the open market. Each LPO forms part of Australia Post's retail and delivery network. LPOs are considered to be franchises under the Franchising Code of Conduct and the LPO network is the largest franchised retail network in Australia.

The licensee is responsible for all business expenses, including providing premises, operating overheads such as utilities, as well as staff costs. The post office has seen many changes as to how we communicate, many of which could have been viewed as a threat: the telephone, the telegram, the telex and the fax, SMS text messaging and now email and the Internet. The post office nevertheless remains a visible presence in our communities, constantly evolving, while some of the technologies I just mentioned are now considered obsolete.

The Internet is a true global network, connecting people, communities, businesses and markets. It's had a tangible impact on the postal sector. It has altered mailing patterns across the world through the substitution of emails for letters, it has contributed to rapid growth in parcel deliveries over the last 10 years and it is changing the way we pay bills and interact with government and financial institutions.

Though these waves of change have been washing through the postal sector, LPOs have remained viable through the diversification of services and products offered in the business. Australia Post's products and services may be the backbone of the business and a driver of foot traffic but it is the higher margin retail products that makes an LPO profitable.

In many areas, especially regional and rural areas, the LPO is operated with a host business such as a general store, a newsagency or roadhouse. At this point I'd just like to briefly mention the community service obligations that are placed upon Australia Post. These CSOs, as they're known, serve the purpose of safeguarding access, pricing and service levels.

Some of the emergent trends in mail and retail may undermine Australia Post's ability to meet some of its access obligations, in particular its obligation to maintain a network of post offices which includes a network of 2500 post offices in rural and remote Australia. Post office licensees are feeling squeezed by rising rents, rising overheads and reduced consumer confidence. This is a position shared by many other retailers, especially small business retailers. However, LPOs are subject to a set of unique circumstances that have the effect of reducing licensees' options for responding to some of these challenges.

If I may, a brief mention of staff pay and conditions in the postal sector. The prevalent award relating to LPOs is the Postal Services Industry Award. Staff employed under this award are eligible for leave loading. It is POAAL's view that leave loading is an antiquated provision. It represents a significant cost to small business operators and is a disincentive for small business owners to take on permanent staff. In the LPO sector there is strong need for workplace flexibility, including flexibility regarding minimum call-outs for casual employees. In many LPOs, there is a need for employees to work for only one or two hours to cope with peak customer numbers or delivery standards. This flexibility must be maintained.

In the interests of brevity I will refrain from summarising POAAL's entire hefty submission. However, in closing, I'd just like to make a couple of points regarding inbound international parcels. We note the recommendation in the commission's draft report that a task force be formed to actively investigate a new approach to processing inbound international parcels. If Australia Post is to be used to collect the revenue and processing costs associated with inbound international parcels, then the processes put in place must be efficient and transparent and result in proper cost allocation between the various agencies involved. Australia Post must not be forced to subsidise these operations.

Any task force investigating this matter must also take into account the effect that the resultant increase in parcel handling will have on the post office network. If parcels are stored at post offices while awaiting collection and payment, then this will put further pressure on the available storage space at post offices. Many metropolitan licensed post offices are already experiencing parcel storage capacity issues, a problem especially in areas with high retail rents.

While on the matter of inbound international parcels I wish to raise briefly again the matter of Australia Post's agreements under the UPU relating to terminal dues. Australia receives more inbound parcels than it posts to overseas destinations. As a net importer of parcels, this means that Australia Post is in a loss-making situation for delivering those international parcels. There is an obvious financial incentive for Australia Post to attempt to renegotiate the terms of its obligations under these agreements through the UPU. As inbound international parcel numbers continue to grow, each one a loss-maker for Australia Post, Australia Post's bottom line will be affected and the end result would undoubtedly be lower dividends payable to the federal government. Thank you.

MS SYLVAN: Thank you very much. Can I go to the issue of the capacity needed for storage and so on while one has all of the parcels incoming or a significant number of them held awaiting the collection of a fee for example if the low value threshold is reduced. That is one of the logistics constraints, of course, that would affect the postal system in particular. Parcels have been growing a lot, let's assume they continue to grow. Can you give me a sense, in terms of the variety of the businesses that you have, of how that storage matter has already affected them? We don't have a sense of that at the more local level. We do at the national level.

MR KERR (POAAL): It's a particularly complex issue and it has influencing factors, such as the size of the premises, what other in-conjunction business there is, the demographic of the local community, the technology available to process, occupational health and safety issues. However, I can give you a couple of examples of where there might be post offices that are under, let's call it, stored parcel stress. If you are in a shopping strip, you might have a fairly narrow licensed post office with one or two serving positions and you are set up for retail; so the post office is set up for retailing stamps, post products and maybe impulse buying and gift cards.

As parcel volumes have over the last sort of seven to 10 years grown it means that the number of unsuccessful first-time deliveries has equally grown. If you have got a percentage of parcels that are undeliverable on the first attempt, as the total volume grows, the total number of undeliverable parcels grows. Therefore, the number of parcels coming back to post offices to be awaiting collection has grown.

MR WEICKHARDT: Ian, can I just clarify a matter on an unsuccessful delivery for a moment, and come back to it. Is it an absolute requirement that Australia Post must deliver a parcel of that sort to somebody when somebody is home? I'm a bit confused. Some couriers seem to leave things, and some don't. So when you say an "unsuccessful delivery," is that, if you like, your choice or your agent's choice or is it by mandate?

MR KERR (POAAL): To give an answer that my wife hates: it depends. If it's a signature item, if you have ordered an item that requires a signature and you are not there to sign for it or you don't have an authorised agent there to sign for it, then it will most likely be an unsuccessful first-time delivery. If it's what you might call an ordinary parcel, with no special features, and there's permission for parcels to be dropped in a safe place at your place of residence, then it will just be left, at the back door or under the front porch, or wherever it might be. So it does depend in part upon the sort of parcel that is being delivered.

MR WEICKHARDT: That has to be a pre-agreement, does it, with the property owner, that, "Yes, I'm happy for you to leave a parcel here."

MR KERR (POAAL): Again it depends. In metropolitan areas, if you have ordered a parcel off the Internet you might be given the opportunity to actually put instructions on the parcel that say, "If not home, leave at such-and-such." You might have seen that yourself, if you are ordering, say, a crate of wine; or whatever you are ordering off the Internet.

Sometimes in the past there have been what we could call local arrangements - where the postie or the contractor might get to know the local people and say, "Look, if I've got a parcel for you, where should I leave it?," you know, "Where is the place where your dog is not going to savage it?" - with obvious constraints. They have tried to formalise this process under what they call safe drop, where you are now asked to give delivery instructions that will help the contractor or whoever is delivering a parcel so they know what your wishes or intentions are for the delivery of that parcel. Does that answer the question?

MR WEICKHARDT: Yes, that is helpful. But you are saying that the percentage that, if you like, have to go back is running at - what sort of level at the moment?

MR KERR (POAAL): I don't actually have a figure for a percentage.

MR WEICKHARDT: But a guess. Is it half?

MR KERR (POAAL): Gosh, no. If it were half, I think the country would be in an uproar. It's not that high a percentage. It would be under 10 per cent.

MR WEICKHARDT: That are unsuccessful?

MR KERR (POAAL): Yes, that are unsuccessful. I can't give you a guaranteed figure on that.

MR WEICKHARDT: No. Okay. Thank you. That is helpful.

MR KERR (POAAL): That is just to give you a rough idea.

MR WEICKHARDT: Sorry to interrupt.

MR KERR (POAAL): I can't remember what I was saying now.

MS SYLVAN: I was trying to get a sense, although it's highly of course, of the impact of the storage problem.

MR KERR (POAAL): Yes, we are talking about the impact. If you have got a small retail shop, you might not be able to find other space nearby to store parcels while they are awaiting collection. So you might find that the storage space that you were previously using for retails stock might be now occupied by parcels awaiting collection. That is a more acute problem for some of the smaller metropolitan post offices. If you go to a larger post office - say, a country post office - they might have the existing storage space, because that was just how the post office was set up; so they might be feeling it so acutely.

It is generally a metropolitan issue, with the smaller post offices that have been set up for retail and the business is changing. So you have gone from 10 years ago, having comparatively low parcel volumes coming through the post office and a focus on the retail side of the business, to this change where now there's more parcels appearing in the business. It's a matter also for the licensee to strike a balance between how much storage space to give over to these parcels and at the same time meet the needs of their local community and their own business needs.

MS SYLVAN: There may be some other problems as well, but that particular problem obviously, you have indicated, is something you need the task force to look at, or at the threshold - - -

MR KERR (POAAL): I think it's a consideration that needs to be borne in mind if there's going to be an increase in the number of parcels where you have to collect money. If the contractor who is delivering the parcel isn't authorised to collect money from the addressee, then the parcels are going to go back to some sort of a waiting/collection facility. Whether it is through the existing post office network or whether Australia Post has to implement a secondary network to handle these parcels, that remains to be seen, but it is certainly worth flagging at this early stage that this is a consideration that must be borne in mind.

MS SYLVAN: As other stakeholders in this have indicated to us, obviously you would want an opportunity to be able to input to the task force, in terms of your various specific issues and so on; which is what we envisage, but we might make that absolutely explicit, in terms of these indications about consideration - - -

MR KERR (POAAL): I think that would be good, since licensed post offices make up about three-quarters of the network.

MS SYLVAN: Another thing - it is really just a speculative question to you - which you might not have considered is when we looked at the overseas handling of where the low value threshold was much lower - and these systems have grown up with very low thresholds, so they have evolved quite differently than the Australian system; and we haven't finished our examination of the international systems - at least in a couple of them that we have looked at, where the handling is with the post office for example, one of the things that seems to have happened with the growth of Internet shopping is that, in order to give the consumer a seamless feeling for that shopping, in fact a great deal of the business has moved to the carriers and not through the post, which stops it, collects the money and so on. So the carriers and the brokers are operating in a seamless way.

There's a price up there for the consumer. The GST is collected, all the shipping and handling charges - which is what they're called - and the taxes are sitting in that. Just from the consumers' point of view, the product comes to them; they don't see all the stuff in the bag, but that's all collected and done through the brokers that are at the front end of that country. It's an interesting question to you, in terms of, if we lowered the low value threshold, in fact a whole lot of parcels might well move for those big global Internet providers - like Amazon, and so on - through other systems than the post office system, simply because that can be seamless and the taxes can be paid through and the consumer doesn't actually have to deal with the problem.

MR KERR (POAAL):   I guess then the question would be finding a local carrier to do that last mile, because, as you would no doubt have seen by now, there is a lot of cost in that last mile, and which is the carrier that delivers to all these remote and outlying - - -

MS SYLVAN: This is your community service obligation?

MR KERR (POAAL):   Yes.

MS SYLVAN: The difficult ones will still come through the postal system and as to the - - -

MR KERR (POAAL):   Which is what is happening at the moment, with some courier deliveries for example. Australia Post might have a contract to do the last mile in certain areas for some of the major courier or parcel companies. So it could well be that it's still Australia Post doing the last mile. But if you were to suggest that there's somebody else doing the up-front collection of all the fees, it might then be treated as an ordinary parcel. It's an interesting one, yes.

MS SYLVAN: But there's the potential for cherry-picking basically in a competitive area, where there is a community service obligation which is material.

MR WEICKHARDT: Can you clarify for us - and it's probably complicated - you talked about the UPU arrangements and the degree to which the termination fee, the terminal fee or whatever it's caused - - -

MR KERR (POAAL):   Terminal dues is the term Australia Post uses.

MR WEICKHARDT: Terminal dues, the degree to which that adequately compensates Australia Post for making deliveries in Australia. I mean, to what degree does your network of LPOs receive compensation from Australia Post for, if you like, being part of this chain and from your point of view, are more parcels a good thing? Is there revenue in that for you or is there not revenue in it for you.

MR KERR (POAAL): Right. We might have put back the bicycles people, we might not have time for that. I'll try and keep it as short as possible. The point that we've made many times in the past is generally what's good for Australia Post is good for our members. So if Australia Post is growing its business in certain areas, usually it's good for a members. Not a hundred per cent of the time, there are times when we disagree with that. At the moment the way that our members are paid for delivering parcels varies a little bit depending on where their post office and how the post office is configured. But to break it down into two main categories - and I'll speak in some generalisms now - generally speaking, if the post office is in a suburban type of area they will be paid a per article fee for handling carded parcels, that is, the ones that had unsuccessful delivery attempts.

Generally speaking, in rural areas, small country towns and the like, the licensee will be paid a fee which is calculated upon the number of delivery points, so the number of households that that post office services. They're the two main ways that that is calculated. We would be happy to see Australia Post receive a greater share of the funds for these inbound international parcels because it should, in theory, increase the size of the pie for our members. They're doing the work at the moment but we'd like to be able to - I'd be lying if I said we wouldn't like our licensees to receive a bit more money for what they're doing. But obviously we'd like to see Australia Post adequately paid for the work that they whole network is doing. It's not that last mile of handling the parcel, it's the gateway and getting it from the gateway to the post offices, all that work as well.

MR WEICKHARDT: The contractors in a country setting, the contractors who actually take the parcel to the home and maybe bring it back again on some occasions, are they associated with the LPO organisation? Are they employed by the LPO or are they completely separate?

MR KERR (POAAL): The contract is with Australia Post. It's with a different division of Australia Post. It's with their postal division as opposed to the retail division. So they're not controlled by the LPO but there are instances where a contractor may be based at an LPO. They do the sorting at the post office and then go out and do the deliveries and at the end of the day bring back the undeliverable parcels and letters and whatnot, whereas in metropolitan areas typically a parcel contractor will be working out of an Australian Post owned delivery facility such as delivery centre, mail centre, something like, so that will be the start of their day. Then at the end of the day if there have been undeliverable parcels, they will then drop them off at the nominated post office, business centre, delivery centre, wherever it may be.

MR WEICKHARDT: Is there any attempt at the moment, due to the pressure of storage to, if you like, have one of the larger entities, being the place that those undelivered parcels are drop off at?

MR KERR (POAAL): There is a lot of work going on around this at the moment. Just recently Australia Post held a trial up in Sydney where all the parcels for a number of postcodes were delivered to the St Leonards delivery centre. So instead of going up to the local post office upon an unsuccessful delivery attempt, they came back to a central point. The idea of this trial was to look at the customer's willingness, first of all, to travel more than a couple of kilometres in some instances to collect a parcel but this St Leonards delivery centre had extended opening hours, it was open 24 hours a day for five days a week and on the weekends it was open extended hours - I can't remember the exact hours off the top of my head - and there was parking facilities available there as well.

So the idea was, if the customer gets the card one day, instead of being tied to the opening hours of the post office, they could collect it any time of day during the working week. The trial finished a month or two ago and Australia Post will soon be giving us some feedback on how the trial went. This is an important piece of work to see what the acceptance level was amongst the community. Other things Australia Post are looking at are things such as these parcel collection lockers which have been in some of the European countries for a little while. So upon an unsuccessful delivery attempt or even as a first delivery attempt the parcel goes to a centrally located collection locker and the customer might get a single use PIN, they go to the locker installation, enter the PIN, a door magically opens and there is their parcel. So that is another thing that Australia Post is looking.

That is just to give you two examples of some of the things Australia Post is considering as a way to improve the customer experience, alleviate some of the pressure on licensed post offices with regard to facilities and also try to encourage a bit of growth as well. It would be good to see more parcels coming through the Australia Post network especially if we're going to be remunerated of them correctly.

MS SYLVAN: I'd just like to move to the industrial relations and planning issues that you've raised. We heard from the SDA and the ACTU yesterday in relation to minimum call-out for casual employees and the reason that they feel they need protections in relation to that are important. You've indicated in your submission that you need more workplace flexibility and specifically you indicate staff may be needed for one or two hours and so on. Can you provide us with any evidence that people really want to work one or two hours and that is not an imposition on them by the employers as the ACTU has suggested that this would be quite unfair?

MR KERR (POAAL): To get a bit more context than the bald facts that I presented in the submission, there are a couple of things at play here. For example, of a morning post offices are expected to meet a delivery standard for sorting the mail, whether it's sorting the mail for contractors to then go out and deliver or sorting the mail for the PO boxes, the private boxes that are there at the post office. Those deadlines have to be met. It's a service standard.

MS SYLVAN: By what time?

MR KERR (POAAL): It varies a little bit, it can be 8 o'clock, it can be 9 o'clock or even in some further flung country areas it might be as late as 10 or 11 o'clock, depending on when the mail van arrives. There is a limit of how much mail you can sort within a certain time. Generally speaking it's between 8 and 9 o'clock in the morning that you're expected to have the mail ready. So if you get the mail at 7 o'clock and you have to have it ready by 8 o'clock but there's more than one hours' work, you'll need to get help in somehow. Now, that's been in place for many years and I'm prepared to be contradicted on this but I'm not aware of one complaint from any casual staff member who has been asked to come in for one or two hours because it's usually regular work. It's not a one-off, "Come in for one hour tomorrow." It's usually regular that somebody will come in, they might have dropped the kids off at school or be on their way to drop the kids off at school and the sort for an hour or two in the morning at the local post office.

So it is an important provision for us because if you change that to say, "Right, now you've got to have a minimum three-hour call-out," it changes a lot of the costs associated with the mail.

MR WEICKHARDT: Can I just clarify, the Postal Services Award that your employees operate on does allow that sort of short shift.

MR KERR (POAAL): Yes. In fact that was one of the critical negotiations as part of the negotiating of that award was settling upon this, that the instruction from the commission at the time was, "We will monitor this closely and it will be driven by complaints. If there are a high level of complaints, then we will have to review it." Clearly from our perspective we're very happy that licensees and their employees have been able to continue to have a good relationship, especially with regard to this minimum call-out. This has all been put under a bit of a cloud by the award modernisation process. So while our award has been deemed an enterprise award and has not as yet been modernised, we hold considerable concerns if we're forced to accept a minimum call-out that's two hours or three hours. It will have a significant effect on the post office network.

MS SYLVAN: Can you give us some sense of what proportion of casual employees work under three hours? Do you have those statistics?

MR KERR (POAA): I don't have any hard data on it. I would say in many instances it would be in country areas where you've got mail deadlines to meet. Often it's a member of the local community, so there's an existing relationship between the licensee and the employee. So usually it's a happy arrangement. I have no detailed data I can give you on that.

MR WEICKHARDT: I don't want to put words in their mouth or try and represent their position precisely but yesterday the characterisation that the ACTU and the SDA made of this issue was that it would be totally unfair to compel somebody to drive a large distance and then be told, "You've only got one hour's work." That seems to me to be markedly different from a situation where an individual who lives locally, who finds it convenient to come in for a short period of time, because it matched school hours or other commitments, voluntarily and is happy to do that. I guess it would be interesting to get a sense - if you can provide us with any numbers. What number of staff are in LPOs where you feel that sort of arrangement does work, and if you've got any indications of the degree to which both parties, that is the employee and the employer, are happy with that arrangement, that would be interesting.

MR KERR (POAA): I'll see if I can do a little bit of work around that. To speak a little bit to the point that might have been made by the SDA and the ACTU, it would be unlikely that people would be travelling large distances to work a very small amount of time in the post office, especially in country areas. I think it's more likely for there to be a local person. Licensed post offices typically employ local people where there is minimum travelling involved and inconvenience. There's usually an amicable relationship between the licensee and the employees.

MR WEICKHARDT: Okay. That's useful.

MS SYLVAN: Just on planning issues that you raise, you raise a number of them. They are tending to be - not the competition issues that we raised in terms of available retail space, but this is the local councils and their regulatory functions. You don't have any recommendations in relation to that. You raise the issues of the clearways, the parking restrictions, the signage and so on. Do you have a view as to how some of those issues should be accommodated by local councils?

MR KERR (POAA): At the risk of sounding like a cliche, I think consultation is important. Local councils are usually well-meaning bodies that operate with the best intentions, but might not in all cases consider all the outcomes and actions that they may take. So making a clearway, for example, might help with traffic flows but may also undermine the peak trading period for local small businesses. Now, if you undermine local small businesses that might be the significant employers in a community, a suburban area or where it might be, that's not good for the entire town. So I would suggest that consultation with the local small business traders association or chamber of commerce or whatever it might be would be an excellent first step to ensuring that there was some more commonsense outcomes on some of these planning issues.

MR WEICKHARDT: Just going back to your point on leave loading, I mean, it's a pretty well accepted practice that people who are permanent employees work for 48 weeks of the year and they have four weeks' annual leave and I guess you can seek an arrangement in any number of ways, but the customary way is that there is leave loading and people are being paid during that period of time. I guess the most important thing is their net take-home pay, and if they were paid for 48 weeks of the year but at a higher rate they would probably be equally happy if they could budget for that four-week period when they were on holidays. When you say you're opposed to leave loading, one way or the other if you're looking at the net take-home pay of your employees, and this isn't - to use the unions' word - in stealth, simply a way of trying to reduce the net take-home pay of the employees, why are you against leave loading?

MR KERR (POAA): The strong feedback I've had from my members is they see this as an inhibiting factor for them when they're looking at taking on staff. Do I take on staff in a purely casual sense where I retain the flexibility of hours, if that flexibility suits the employee, of course - - -

MR WEICKHARDT: But you'd typically pay a loading for a casual - - -

MR KERR (POAA): You pay a loading of 20 per cent.

MR WEICKHARDT: - - - which recognises that they don't get leave - - -

MR KERR (POAA): They don't get leave, they don't get sick leave et cetera. So that cost in built in there, but licensees generally see that as value for money if it's a 20 per cent leave loading. Another thing that's under threat from award modernisation - I might not have actually mentioned this - is the proposed raising of leave loading from 20 to 25 per cent in our award. That's another thing that we're not particularly happy about. The level of full-time employment, as in genuine full-time employees in the licensed post office sector, is on the whole relatively low.

MR WEICKHARDT: Can I just clarify that. Is that the loading for a casual, the 20 to 25 - - -

MR KERR (POAA): Yes.

MR WEICKHARDT: - - - not the leave loading?

MR KERR (POAA): No, the leave loading is less than 20 per cent. It's 17 point something, off the top of my head.

MR WEICKHARDT: Okay.

MR KERR (POAA): No, the casual loading would be moved from 20 to 25. I've completely forgotten what I was saying there.

MR WEICKHARDT: You were saying that your members felt that the leave loading was an inhibiting factor in employing people.

MR KERR (POAA): Yes, I was saying there's not a huge number of full-time employees in the LPO sector. In the first instance it's because something like half of all LPOs are a single terminal office. That means it's usually run by a family, and one member of a family will usually staff the post office. In those post offices where it's a two-terminal business or a two serving position business, you might see that it's a husband and wife typically who are operating the post office, and they might have a casual member who comes in to do a few hours a day so that one or the other can go and pick up children or run various domestic tasks.

It's only the larger post offices of which there might only be a few hundred that might have three terminals or three serving positions and above where you'd start looking at potentially having full-time employees. As I said, the feedback from the members has been, since the award was introduced, they find the leave loading a disincentive to take on permanent staff.

MR WEICKHARDT: Just going to your recommendations in your submission, you said you wanted easy to understand, standard and business and staff-friendly OH and S laws. I guess OH and S laws are supposed to be staff-friendly and they're supposed to contribute to not injuring staff, but do you mean staff-friendly insofar as they're understandable?

MR KERR (POAA): I'll be completely honest with you. I was being completely honest with you before as well, I might add. I threw that in there because I thought somebody reads this and thinks he's just after being business-friendly only at the exclusion of staff. I don't want that message to come across. You have to keep your staff safe, full stop. That's not a debatable point. So I wanted to make sure that anybody reading this would understand that we think it's very important to have safe staff. Your staff and your business owners, in a small business they inhabit, they work in the same space. If your employees are safe it means that you as a business owner are also safe. That's what I meant by that.

MR WEICKHARDT: Okay. At the moment, the suggestion is you don't think these OH and S laws are staff-friendly?

MR KERR (POAA): I wouldn't read that into that, no. We're more concerned about having an easy to understand and consistent occupational health and safety provisions.

MR WEICKHARDT: Okay. You desire to be represented in all key government and agency forums.

MR KERR (POAAL): I don't mean POAAL necessarily, I was referring to making sure that small retail business owners are represented in those forums and that their needs are taken into consideration.

MR WEICKHARDT: So otherwise you'll be a very busy man.

MR KERR (POAAL): I'll be a very busy man. I'd be Qantas's best friend probably with all those frequent flyer points.

MR WEICKHARDT: Okay. Thank you very much indeed for appearing.

MR KERR (POAAL): Thank you.

MR WEICKHARDT: We appreciate your submission and your input. It's an important part of the whole picture.

MR KERR (POAAL): Thank you.

MR WEICKHARDT: We'll just adjourn briefly.

MR WEICKHARDT: We'll resume the hearings now and our next participant is Bicycle Industries Australia. If you could each, just for the transcript and the people making the transcript, in your own voice give your name and the capacity in which you're appearing, then they will hopefully be able to identify you when you speak.

MR BOURKE (BIA): Peter Bourke, general manager of Bicycle Industries Australia.

MR LETTY (BSS): Nigel Letty from Bicycle Superstore.

MR BRADSHAW (RCTA): Graham Bradshaw from Retail Cycle Traders Australia.

MR WEICKHARDT: Thank you very much indeed. You've sent us a couple of submissions which we appreciate but if you'd like to outline some key points that you want to talk to today, that will be helpful.

MR BOURKE (BIA): Thank you. The bicycle industry is something that has been around in Australia for a very long time. We've evolved significantly, the use of the bicycle itself has evolved significantly and we are at a time, I guess, when we need to have a look at our next evolution again.

So traditionally we've come as a form of transport; we're now completing a full circle, going to recreation, to sport, and now we're back to the level where we're a form of transport. But one thing we're still looking at is that the purchase of bicycles is still discretionary spending, so any purchase of the bicycle is seen in that category.

A little bit of an overview of the industry, which you've obviously probably seen yourself in our submission, 80 per cent of our products are under $1000 in retail. We're a billion-dollar industry and we employ about 5000 in the wholesale and 5000 in the retail space. What we've seen in recent times has been a dramatic growth in the use of bicycles. In the last three years, we've seen 16 per cent growth in the use of bicycles but we certainly haven't seen that in the sales of bicycles, which is fine. What we have seen is dramatic changes to the sales structure and the growth of online sales.

The bicycle industry, in a report that was released in July this year by the Quantium Group, identified that 16 per cent of all bicycles and bicycle-related products are purchased overseas. So that's obviously much larger than - you've identified 4 per cent Australian and 2 per cent foreign. The report released by the Quantium Group is obviously 16 per cent foreign and 3 per cent Australian. So we're not far behind on the Australian side of things but the numbers coming from foreign sites is obviously dramatically larger than that.

That was obviously a quick overview of the industry itself. To talk about some of the recommendations that we support, we strongly support data collection which you have identified. We believe that at the moment the government certainly doesn't have a strong picture on what exactly is happening out there and that has certainly been highlighted through this whole process and you yourselves have highlighted that that's something that we need to improve on dramatically.

The one thing that we do want to highlight though, even though we support the collection of data, we do not want this to delay any proceedings in any achieving of tax neutrality. For want of a better term, we don't want this to be an excuse to hold off any process or any proceedings to actually achieve that. That's certainly something that we see. Yesterday, obviously Brad Kitschke spoke very strongly about his opinion on the processes within customs and the inability to get data out of customs and various other agencies. We would certainly echo that.

An example, just for your information, I have been trying to identify the number of electric bikes being brought into Australia. We can't do that. It is not recorded; that, I can handle. But it took nine months for customs to actually identify that they don't record that information, after freedom of information requests and various other items. I can handle that they don't do it, but nine months to tell me they don't do it is probably too long in that scenario.

MR WEICKHARDT: Can I just clarify: is that because there is no separate tariff code for electric bikes?

MR BOURKE (BIA):   Yes, it is. We understand that customs has limited numbers, but yes, it's just the fact that they couldn't identify that for that period of time. I will also say that during that process they handballed me to the Australian Bureau of Statistics, who handballed me back - you understand the game of tennis on that one.

Tax neutrality: your recommendation for achievement of tax neutrality we strongly support. Obviously we believe in that and strongly agree with that. I would like to see though a change in the framing of that recommendation because I do believe that there is currently a get-out clause, with the fact that it needs to be cost neutral. We certainly agree that we don't want it to put an impost on the Australian economy but it almost appears that the Australian retail sector has been penalised for the lack of the efficiency of a government department.

The private sector I guess for the last few years has been accused of not being efficient itself and needed to improve its own services, yet it appears that we're going to be penalised because a government department is doing exactly the same thing as what we've possibly accused of in the past. We certainly understand that there can't be changes made overnight but we certainly believe that the framing of this, an achievement of tax neutrality within a certain time frame, would certainly be far more beneficial than I guess the open-ended looking at it right now. That would obviously give those that are required to make some changes the time to implement that. I think we identified yesterday that the GST had an 18-month time frame to bring in; certainly those sort of time frames we'd see as probably reflective in any sort of framing of that recommendation in that process as well. So we certainly obviously agree on that.

Something that wasn't in the recommendations which we see as very critical, certainly for our industry - and I must state that we're obviously working for our industry, it is the bicycle industry that we're talking on behalf of - is the impact of Australian standards. You noted that I brought a helmet with me - and it's a dangerous game sitting up here - but I brought that because it's a very relevant and very current example. That data that I've put in my submission is actually two months old; it's a new helmet that's been brought into Australia. This helmet itself, there's two and a half thousand of them to be brought into Australia. To purchase that helmet, the Australian wholesaler has had to pay the GST, which we understand is 10 per cent, but on top of that, they have had to meet Australian standards rules, Australian standards guidelines. It was a $100 purchase price. They have then had to pay the GST; they have then had to pay the fees associated with getting it to meet Australian standards which is $32,886, and in doing so, they have had to send 96 helmets away to be tested - all helmets that are tested are tested to destruction - bringing the purchase price per helmet to $128. So already government guidelines have made the price of this helmet 30 per cent more expensive than for a foreign online seller.

If the Australian wholesaler does not do this, they face a $1.1 million fine. The same helmet can be purchased online, without any risk of fine, without any issues whatsoever associated with that. The bike industry is governed by helmet regulations, bike regulations, lights, glasses, child seats, bike trailers. We are subject to those standards. Any foreign sale is not subject to those standards. The ACCC has said they cannot do anything about it and will not do anything about it. So without even starting the race, we're 30 per cent behind the others.

That in itself has made a lot of retailers - and we'll be honest here - throw their arms up in the air and go, "Well, why bother?" As a result, we have far less choice or range of products available in Australia because it is just not worth paying the fees associated with meeting Australian standards, especially when foreign sales don't have to meet these standards.

If people think that this isn't happening in Australia, all you need to do is go to a bike race where the officials check the helmets and you will see - it's amazing the scatter of people that run to find another a helmet or buy another helmet because you're not allowed to compete with one of these helmets. They're not legal. You don't have insurance. But it's the easiest way to test it and some day you will have one person and some day you will have half the field run away to try and find another helmet. So the Australian industry, if we're saying 16 per cent of all products are purchased online overseas, helmets are an example. It's far higher than that as well. So we're certainly aware that that is a huge effect.

MR LETTY (BSS): Can I add something?

MR BOURKE (BIA): Please do.

MR LETTY (BSS): One of the other problems is that the general consumer doesn't see a product difference to the one they're seeing on the Internet and the standards approved one. The fact that it's got a sticker on, they can justify with, "Well, it's exactly the same helmet." But knowing the differences and knowing why they're changed is more relevant to see on bikes from a safety standard. Most people don't realise that on bikes the brakes are operated on the opposite side from a bike that's imported from Europe and I've faced litigation myself where a person from Europe test rode a bike and wasn't advised that the brakes worked opposite in Australia and in England where the standards are the same and they went over the handlebars expecting the back brake to be the front and the front to be the rear.

Anyone who imports a bike isn't given the advice and they aren't consistent as to how they come in from Europe and there is a risk there that someone is going to be badly injured.

MR BOURKE (BIA): That is something that we need everyone to be aware is purchasing online European standards; European designs are different to what happens in Australia. This leads us to consumer protection laws. We know that they came in on 1 January 2011. They are very effective. They are very good and we certainly support those laws. But because of the foreign online sales they're actually being a financial penalty to Australian retailers. They don't protect on foreign sales and, as Nigel has said, that's simply a case of design. But where there is a faulty product, such as lights, rechargeable, different currents, different amps, if there is any incident, worst-case scenario, the shorting of the house or the burning during recharging process, there is no protection if that has been purchased from a foreign site whereas in Australia that's the case. Now, as I said, it's a financial penalty to Australians that we have to do that.

The helmet is an example. One thing that people aren't aware, legally they must ride in a standards-approved helmet. Riding with a helmet that is not approved is like riding without a helmet which, therefore, most insurance clauses, as you know, have a clause that would void the insurance. So riding in a helmet that has not been approved puts you at risk of an injury without insurance at all. Most people aren't aware of that and that is something that the Australian retailer has paid to achieve and it's a huge risk and it's become a much larger risk the more people that are purchasing online and the more helmets that are coming in online.

Australian brand promotion: something that affects Australian retailers and wholesalers quite heavily, warranty claims. Australians spend money promoting a single brand. Foreign online sales tend not to do that. They tend to promote a single site for a number of brands. What the issue therefore is, is when there's a warranty claim in Australia, the Australian wholesaler has two choices: to actually honour the warranty or not. Technically they have no reason or no legal responsibility to honour the warranty. But they have a choice to either do it on a product they didn't sell and lose money or, if they don't do it, because we are in such a technologically based society, communication, blogs and everything else, suddenly their brand gets a very bad name for not servicing their product.

So they're actually caught right now between a rock and a hard place between losing money on a service or losing reputation on a non-service. So that has become a very large dilemma for a number of wholesalers and we're seeing in Australia them approaching it differently but we certainly don't know what the answer is on that but all I know is that it's costing the Australian wholesalers to actually manage their brand, their name, their reputation. The other aspect, of course, of that is the fact that the Australian wholesaler must hold an entire season of stock, whereas a foreign site does not, and if they don't, again it's that reputation of not being able to access the stock that becomes critical to them or very bad for their brand name, as well as obviously commercial contracts that say, "You must hold for a season." The manufacturers obviously have contracts to do that.

The working group: the recommendation of the formation of a working group. We again support the formation of this but we are concerned about the time it would take. Again, we highlighted earlier the time frames. We're currently sitting in a position where in the last 18 months the foreign sales grew from 6 per cent to 16 per cent. That's 9.1 per cent growth in 18 months. If we wait another three years, five years, we're talking 30 per cent of the market would be purchased online - sorry, if we even halve the rate of growth, I should have said, we're still talking 30 per cent in five years. The Australian bike industry can't sustain that. So those time frames for us are very critical.

The other aspect about the working group, you spoke yesterday about its independence, which we support wholeheartedly, we agree. But we are a little bit concerned about getting recommendations from CAPEC or agencies that have a vested in maintaining the current level of low value import threshold. An example of this, we want to make sure that any information is balanced and if your recommending advice from one group, we certainly need to see advice from both side or all sides of the argument.

An element that I'd like to highlight of that, Philip, you did attend a workshop in Melbourne, a Customs workshop. During that the issue of standards was raised and a member of CAPEC stood up and said that, "We have systems in place so that if any item has an Australian standard that it has to meet, if it doesn't meet it, we won't let it in." Helmets is a very clear example that they don't either have any idea or that are telling you what they believe you want to hear. So that statement alone it concerns me that you're identifying that you've received advice from this group, yet we certainly want to make sure you get a balanced view from that working group.

One thing that hasn't been touched on very heavily is the environmental impact. We talk about helmets as an example. 2500 helmets will come in a shipping container by sea cargo. They produce .0087 kilograms of C02 per tonne of kilometre. Air cargo, which is how each helmet would come in if it was purchased individually, would produced 1.04 kilograms or 120 times more. We have traditionally spoken about a triple bottom line, yet that seems to have gone right out of the window in this argument. The environmental impact of the air cargo is so dramatic in comparison to sea cargo, it just doesn't seem to have been entered into this discussion at all and I guess we just need to ensure that something like that isn't lost in this discussion as well.

I have spoken about the impact of time. The industry knows full well that we need to do things ourselves to evolve, but we certainly believe that the lack of tax neutrality has had such a dramatic effect on us that we need a level playing field to start from and the longer this goes the longer that we will see the bike industry, I guess, dwindle away. If we're losing 16 per cent now, that's 16 per cent of jobs gone. 30 per cent and one at a time. The longer this takes, as an industry we can't afford to waste any time. We understand there is a process and we understand that we need to be working as well at the same time. But we need to achieve tax neutrality much sooner rather than later otherwise we'll be in a position where there will be less shops, there will be less opportunities for consumers, there will be less opportunities for consumers to get advice and it will actually make it less safe for the consumer.

As Nigel mentioned the impact of brakes. Simply left hand is front brake, right hand back brake, vice versa in different countries. If that happens it will actually impact on the consumer in a very negative way. So for that reason timing is a critical element for us to achieving neutrality. We're certainly talking about the financial impact but there's a lot of social impact of this as well, so I would like to hand it to Nigel to speak of that.

MR WEICKHARDT: Okay. You can take as long as you like but we've got until 10.30 and we have questions. So if you can leave some time for us to ask some questions, that would be good.

MR LETTY (BSS): I think at this point Peter has covered an awful lot, and maybe if you ask your questions then a lot of the answers will cover what I would be telling you about what is happening at store level. Maybe I can do it that way and help more that way. Is that okay?

MR WEICKHARDT: That would be good.

MR LETTY (BSS): So please ask some questions.

MS SYLVAN: I'd like to start with a difficult question for you. There is a really significant price differential in this industry in particular, irrespective of the GST, even if we had tax neutrality, and I think you're very well aware of that. In a sense the discussion reminds me a little bit of some of the manufacturing discussion that was held many years ago. I don't think we produce any microwaves any more. I don't even think we do washing machines and dryers or anything any more. Those are all imports because there is of course an advantage from other countries in this production. Obviously some retailers will survive, for a whole variety of reasons - possibly, you know, upper end bicycles. Most of this product is imported.

MR BOURKE (GBIA): 99.9 per cent.

MS SYLVAN: I don't think there's any major Australian manufacturer.

MR BOURKE (GBIA): No.

MS SYLVAN: At least if there is, I have missed one. The Internet has now made the price discrimination that has been going on in Australia absolutely apparent. My question is, if there are not that many left, from an overall point of view in an economy which has very significant employment and so on - I mean, obviously you're concerned, these are your businesses and so on - is that really something that is just part of the transition, you know, new structures for retail, etcetera. Does it matter that much, and should it matter to a government?

MR LETTY (BSS): I've been in the bike industry for 33 years, so I have seen a lot of changes. I owned a manufacturing business in bicycle frames, Alchemy brand bikes for 18 years, and recognised in 2005 that I couldn't compete against Chinese manufacture because of labour rates, and also the product that was coming out of Taiwan was ending up as good, if not better, than what we could produce. So I agree with you wholeheartedly there. The difference in retail is where can't compete.

We have lost some whole categories because of the ability for people to bring in, without having to pay the 17 per cent, say, shoes - where there's a 7 per cent duty and 10 per cent GST - and also we are becoming stores where people can walk in, size up and then go out and order online, because the value equation isn't there to cover the difference. We have done research with customers, who say, "If you can be 10 to 15 per cent difference in price, we're happy to pay the extra." So they will pay some more, but they won't pay double or triple. We have found that there has been some wholesalers now who are adjusting their model so that they can import cheaper and wholesale to us cheaper.

We are working on changing our model to try and be more competitive, and we are clawing back some of that market in retail. But in a lot of the cases we have had to make different adjustments to our retail model to be able to survive. We can't get around penalty rates on a Sunday of, you know, double time. We can't get around the fact that we are paying 17 per cent more. So the margins are getting skinnier and our response to this has to be that we reduce our staffing levels, which compromises the service that we are capable of giving to our customers, and also we are now having to go and speak to landlords to renegotiate rent. So there's a whole lot of adjustments that are being made, but every one of them impacts on the viability of the landlord's landscape, the workers' landscape and the profitability of our franchisees and stores.

MS SYLVAN: So essentially you're saying that there are things out there that you require to be competitive and you want the ability to do that; and you know your industry is going to lose some people on this, by definition.

MR LETTY (BSS): We do, yes.

MS SYLVAN: I was very interested in your example of the New Zealand online site, when you were giving us examples, and this business apparently does about $65 million in turnover and sells most of its product overseas and so on. Do we have an equivalent in Australia?

MR BOURKE (GBIA): Not to that size, no.

MS SYLVAN: Any speculation as to why that is, that we haven't moved and become a big online provider?

MR LETTY (BSS): Supplying our own country, GST is going to be a huge issue, but supplying outside of our country, I think you'll find that the freight to Australia and then from Australia is too great to be able to cover that.

MS SYLVAN: Not New Zealand?

MR LETTY (BSS): An interesting question.

MS SYLVAN: I was just interested that there was such a big business there.

MR BOURKE (GBIA): True, and they have the same issues. Freight is one element. The GST is part of it. It all adds up to larger picture. They obviously don't pay the GST into Australia.

MS SYLVAN: I was going to move to standards. You may have some more - - -

MR WEICKHARDT: Yes. One of the things that was said about the Internet when it was first came to be talked about a lot in the late 90s was that it was going to cause this process of disintermediation. It's an awkward word. But it allowed a facility where product could go more directly from a manufacturer to a final consumer and not through a supply chain that had traditionally been in place, the wholesale supply chain. In this industry, is this a classic case where, if you like, the wholesaler, intermediary, is might be part of the solution but might be part of the problem too.

Could your members, who are the retailers, actually say, "If you can't beat them, join them"? Could they simply be the importer, in many cases, directly from some of these major UK sites or Irish sites? It is curious to me, having done a little bit of bike riding myself and been in a few bike shops, not being one of these sort of absolute fanatics, but I have observed lots of people who don't appear to be very price-sensitive consumers at all. If it goes faster and it's better looking lycra, they seem to be right into it.

If the retailer were prepared to do the work of buying the product online, bringing it in and then fitting it and servicing it and provide all that after-sales service, would that maybe be a more efficient model than relying on the wholesaler. Even if that doesn't work, do you see your members evolving more into a situation of saying, "Well, we won't supply the parts. Here is a computer in our store, order it directly online. But we will fit it, we will service it, we will provide, at a cost, an after-sales warranty on it; we're not going to do it for free." Does it just mean that there will be an evolution of the business model under which your industry operates.

MR LETTY (BSS): There's a couple of things that are going to stop that happening. One is that a lot of the wholesalers own the trade marks, so the individual bicycle stores can't import. There's some serious penalties if you do. For instance, Shimano is one of the main ones that holds their trade mark, and you cannot import that brand.

MR WEICKHARDT: What, an individual consumer can?

MR LETTY (BSS): An individual consumer can, but a bicycle store can't.

MR WEICKHARDT: But a business can't.

MR LETTY (BSS): Correct.

MR BOURKE (GBIA): Just to add to that. That is, yes, Shimano Australia, but Shimano Australia is owned by Shimano Japan. So it's actually from the manufacturer that that has actually been brought in. So the Australian wholesaler is actually the middle man in this situation and it's controlled by Japan.

MS SYLVAN: You can't parallel import the product basically.

MR LETTY (BSS): Correct.

MR WEICKHARDT: Is it sort of intriguing, and I don't want to single them out, but to use Shimano as an example, but if the inevitable trend of the current structure is that people simply buy individually and go around their local agent you think they'd say, "Well, the local agent is not serving a useful purpose here any more and I'll get rid of the local agent," or, alternatively, "I" - the local agent - "have to make my retail outlets competitive, because otherwise people will go past that local agent. If I want a local agent to provide service to my retailers and my customers, then I have got to make my retail outlets competitive."

MR LETTY (BSS): Coming back to Louise's point from before, there has been 30 years that I have been in the industry and there has been lots of challenges out there and we have all adjusted. What we're not capable of adjusting to is the unfair playing ground of the GST. I don't think that we can complain any more than the fact that the duty and the GST is creating that.

MR WEICKHARDT: It's creating part of the problem and we don't resile from that. What we've been at pains to try and point out in our draft report in some of the interchanges we had yesterday was it's not the only problem, and there were other structural changes that are important - and I'd like to come to the helmet issue later on. But all these changes are causing a lot of pressure on the industry and I guess the industry has to do some adjusting as well as the government if it can provide a more tax neutral environment.

MR BOURKE (BIA): We certainly agree with you. We say the GST is certainly part of the problem and we need to adapt as well. Obviously the business model that each business chose to approach, we'll have to look at that in the future and that comes down to those business models. But I guess what we don't want to get lost is the fact that, yes, the GST is part of it, but we don't want to wash over that and look at the industry only. In the same light, the industry has to take responsibility and not just blame the GST.

MR WEICKHARDT: Not just hope that if the GST is fixed that everything will be hunky-dory.

MR BOURKE (BIA): Absolutely. We're not blind enough to think, "You're the problem, you fix it and that will solve our problems." I guess it comes down to the model that each individual retailer, wholesaler, distribution chain comes to in the future, it will evolve, it will obviously identify itself and each retailer do their own system in the future that is financially viable for them.

MS SYLVAN: We've seen disintermediation in parts of this industry. We've also seen a form of vertical integration. Is that happening in the bicycle industry where you get models like Zara, for instance, who hold the whole chain basically within them, and also a couple of others that are doing it in different ways but basically the entities - wholesale, manufacturing and so on - are becoming one. So what faces the consumer online and at the retail level is effectively the manufacturer. Is that happening in the bicycle industry.

MR LETTY (BSS): Actually, Giant Bicycles is a really good example where the manufacturer owns the distributor in Australia and is now starting to have some of its own retail stores, so you've got that vertical integration. Where the balance seems to be lost is that Australia isn't a big enough market for them to be able to do it in every location, so you end up with retailers who have a number of brands, and their brand, and then vertical integration amongst their own stores. That is still being resolved, how that's going to wash out.

MR BOURKE (BIA): In the last two years we've seen a very large shift from the importer element or the distributor element where they've got vertical integration from the manufacturer to them, but it's only just starting. It's not to the same degree through to the retail level. I think eight of the now top 10 companies are now foreign. They're not Australian-owned distributors.

MR WEICKHARDT: If we come to the helmet issue, in some ways it's sort of ironic that many manufacturers in Australia, or many retailers in Australia, would die for a situation that you have, that is to have a product that has to have an Australian standard, that it's illegal to ride without having that helmet. You don't get any insurance if you don't ride with it. It seems to me, from what you've said, your only problem is the consumer awareness issue that if everyone knew that their kids might be more exposed to injury, or they wouldn't get any insurance, or that the Australian standard really did give a higher level of safety, I can't imagine many people would say, "$20 for my kids' safety?" It just sounds like a consumer awareness issue really. Is that oversimplifying it?

MR BOURKE (BIA): To a degree I'd say yes. You are right. These helmets will meet European and American safety standards, and the majority of people who purchase these helmets - most of the helmets purchased online are not for your kids. They are not your $15, $20, $30 Kmart specials. They are triple figures, which are the high-end helmets. The majority of people that purchase them say, "Hell, if it's good enough for however many million Americans, however many Europeans, why should it be any different for us." The helmets, I guess, because they're so stringent a test, foreign helmets generally don't meet Australian standards. There's then an engineering fee to make them stronger.

An example of one company: they bring in almost two years' worth of stock in a single batch because the manufacturer will only manufacture a certain number of helmets in a single run of their style, so therefore they have to make two years' worth of stock to make that manufacturing run good enough. We had a situation last year where the standards changed. There was very poor communication and the industry got caught - - -

MR WEICKHARDT: The Australian standards?

MR BOURKE (BIA):   The Australian standards. There was a huge amount of stock dumped because the communication to the industry from the standards - we weren't represented on that committee - changed and we were given - what was it, August - probably six months to dump stock. If you've got two years of stock in your - it's because the Australian standards are so different to foreign standards, most people - - -

MR WEICKHARDT: Is it the industry view that they're justifiably different because the commission looked at standards in some depth in a review a while ago and came to the conclusion in some cases there were genuine reasons why the Australian standard was required, and in other cases it would be far better for Australia and for consumers overall to have overseas standards recognised as compliant. Now, in the case of helmets, have we got a KOALA factor at work here? Is there a genuine reason for us to have a different Australian standard for helmets?

MR BOURKE (BIA):   Unfortunately, this one is based on opinions, and people within the industry will have a variety of opinions. There are certainly elements that are much better in Australia, such as the batch testing to ensure that each batch is up to speed; whereas obviously if it's overseas there's no pre-testing of a helmet. Later down the track if something happens they then go and test the helmet.

MR WEICKHARDT: What, under European or American standards they're not required to test batches?

MR BOURKE (BIA):   Not prior, no. The standards themselves in most cases are satisfactory or good enough. There's certainly a process around it that Australia does a lot better.

MS SYLVAN: So the key difference in the Australian standard is the process of - - -

MR BOURKE (BIA): No, there's the amount of absorption, there's a test to see how the visor will react. There's certainly changes to the density of the helmet, and the fastening device.

MS SYLVAN: Do we have evidence that if you go head over heels with an Australian helmet on, you're much better protected than if you're wearing an American or a European helmet?

MR LETTY (BSS): I think you'd have to suggest with the testing that they do, the extra testing that they do, they also do an impact and penetration test on helmets as well. In the early days of John Rose and Rosebank helmets, they did an enormous amount of testing and it was beyond anything that they did overseas, and I think you'd have to say that our testing is the toughest, and the easy way out of it is for the world to take on Australian standards.

MS SYLVAN: They obviously haven't thought it's necessary.

MR LETTY (BSS): No.

MS SYLVAN: Do we have an Australian manufacturer?

MR BOURKE (BIA): No, not any more. There was until last year.

MR WEICKHARDT: Does Cadel Evans choose to wear an Australian standard helmet when he's riding?

MR BOURKE (BIA): As an international rider, if he's in an international race in Australia, he doesn't have to. That's the only time they get an exemption. If he's an Australian rider training in Australia, he has to.

MR WEICKHARDT: But if he's riding overseas, does he say, "I know the Australian standard is better and therefore I'll use the Australian standard helmet"?

MR BOURKE (BIA): He uses team kit that's sponsored and given to him which is a slightly different scenario again.

MR WEICKHARDT: Yes, it is. Okay.

MS SYLVAN: I just wanted to make sure that I understood, the annual fee that you're talking about here, is this for membership of NATA?

MR BOURKE (BIA): No, there are three agencies in Australia who can test, who basically have a triopoly or whatever you want to call it, and there's an annual fee to them to be able to get them to test your helmets.

MS SYLVAN: There are significant costs, I must say.

MR BOURKE (BIA): True.

MS SYLVAN: Would you recommend, or have you recommended, that we simply accept and modify our standard to the international one?

MR BOURKE (BIA): We've certainly had a number of discussions with Standards Australia. The standards were just adopted on 12 December. The last standards ran out last year. They believe the standards - "We adopted new standards and they're the standards. Thank you."

MS SYLVAN: The fines that you refer to, the 1.1 million, this is if you're prosecuted by the ACCC.

MR BOURKE (BIA): Yes.

MS SYLVAN: This is the potential outcome.

MR BOURKE (BIA): Yes.

MR BRADSHAW (RCTA): I just might add one change came in with that change to the helmet standards that we dropped the recognition of the Snell standard which is an American standard. It was felt that it was probably the closest to the Australian standard but it didn't meet it because of the testing regime. It's not tested free. In the event of something happening, the helmets are recalled, and recall systems haven't worked very well in Australia in the past. So we've actually tightened up what's been available with the last lot of changes.

MR WEICKHARDT: I know there's a lot on your wish list. Let's put the GST issue to one side, assuming that's dealt with somehow. Would it be your preference to continue in a world where there was an Australia standard, where it is illegal not to ride with a helmet that wasn't appropriately recognised under Australian standards, or just to have a situation where, provided you had a helmet that met European or US or Canadian standards - list a few standards - where any of those helmets was acceptable?

MR BOURKE (BIA): That's quite an interesting question because certainly if you ask different people in different positions in the industry, they will have a different opinion because of course it does provide, as you've mentioned previously, a commercial benefit to certain people. Unfortunately, this is my personal opinion and not the BIA, and I have to make that very clear, but the ability that they be removed, the helmet, from the Snell standard previously, if they were in a position where that was acknowledged and accepted as they had previously, I believe it was a mistake when that was removed from the current standard, but then of course you lose the advantage of the testing protocol. So to get a balance between would have been beneficial.

MR LETTY (BSS): I think there's also a moral question there of whether you believe that the Australian testing means that you've got a safer helmet in Australia. I personally do, so I think to maintain the Australian standards and to protect people in Australia and make sure that they use Australian standards' helmets would be the best outcome. But failing that, on a financial basis, if it was a world standard that was accepted, then the cost layer would be taken out of the Australian helmets and the stores would be able to be more competitive and therefore get more of those sales.

MS SYLVAN: This testing regime of every batch of 400 helmets that are imported that you need to test to destruction, this has to be done before you can put the rest of the helmets on sale?

MR BOURKE (BIA): Yes.

MS SYLVAN: So they have to be tested as they come in?

MR BOURKE (BIA): As they're made.

MS SYLVAN: The assumption being that if you find a defect in one of four, that they - - -

MR BOURKE (BIA): You've go to fail straight out, yes, which you've already paid for, so therefore you lose those 400.

MS SYLVAN: Or you try to return them or whatever.

MR BOURKE (BIA): Of course, to the manufacturer. That's the other cost of course which we haven't spoken about, the fact that you've then got to get those four transported separately - that's just additional cost. One thing that I spoke of here, this helmet would be expected to pass the standards without modification. One of my board members has spoken about the cost of engineering the changes from the American standard to the Australian standard to ensure that they absorb more and various other things as a dramatic cost to the initial outlay. They're a slightly different scenario because they would sell 50,000 helmets, 80,000 helmets. But the engineering costs are dramatic as well. What it means is you only have mainstream brands in Australia, you don't have any smaller boutique brands in Australia at all.

MR WEICKHARDT: Okay. Can you talk to us a little bit about what's happening to the retail bicycle industry around the world outside Australia. We received a submission in the round before the draft report from an organisation in the auto after-parts market. They quoted a pretty startling statistic, saying that in the US, the auto after-parts market, the non-branded, sort of generic auto after-part market now is 65 per cent online in the US. That's a huge change.

MR BOURKE (BIA): Phenomenal, yes.

MR WEICKHARDT: I'm assuming that organisations like Chain Reaction and Wiggle are sort of having an effect worldwide. What is the retail bicycle industry doing elsewhere and this sort of penetration of 19 per cent market share that's occurred in Australia, is that common elsewhere?

MR BOURKE (BIA): Yes, but not to the same degree. Chain Reaction, based out of Northern Ireland, we know it's the Royal Mail's biggest customer out of Northern Ireland. They get fantastic freight rates. They reported 40 million pounds worth of turnover in 2009. Last year, it's estimated - we don't know a full figure - there's 80 million pounds worth of international turnover. Australia went from in their top 4 destinations to their top 2 destinations. We are seen as a target because of our tax legislation, as well as I guess our economy has not been as dramatically hit as other sites, so we're actually targeted.

Chain Reaction, Wiggle, these other organisations, very clearly you state your country and it works out the tax for you. If you sent it to any other country, it already has the tax and pricing structure done effectively on there as well, so it's easily done and easily collected by those.

MR WEICKHARDT: What are their top destinations? If we're number 2, who is number 1?

MR BOURKE (BIA): America and the UK are certainly their top destinations. Locally they still sell a phenomenal amount of stock but obviously the US as well is one of those destinations, and then working out through Europe as well, where it's easy for them to transport as well.

MR WEICKHARDT: So even though they're collecting the tax on countries like the UK and America, they're still making penetration, albeit you say at a slightly lower rate than Australia but it's still penetrating those markets?

MR BOURKE (BIA): True, and it's probably not a slightly lower rate for a lot of them, it's a much lower rate. We're probably getting financially a similar figure to the US, but obviously the US entire economy, if you talk as a percentage, is much lower than ours, but as a dollar figure, it's a similar type of rate, but obviously we've got 22 or 24 million, whatever we've got, and America has got a hell of a lot more, 300 million, so the percentage obviously falls dramatically.

There's no doubt there's been a shift in other countries but it just hasn't been as profound as what we're seeing in Australia. As I said, because of the tax law as well as the economy sitting where it is, we are definitely targeted and they openly state that they are marketing specifically for the Australian economy.

MR WEICKHARDT: Is part of that due also to the regional pricing strategies of the major brand holders? For example, is the price that a retail shopper in America could buy from Shimano, for example, the US Shimano agent, it that lower than the price that you as a retailer in Australia could buy from Shimano in Australia?

MR BOURKE (BIA): It's one of the challenges. Shimano is not probably the perfect example but there are significant other brands. Chain Reaction sells more of those particular products and that brand than the entire Australian importer does. So their purchasing price, there's no doubt about it, is equal to what can be purchased by the Australian importer, if not better, based on pure volume. We struggle to compete on that level. Yes, their turnover is greater than the Australian importer.

MS SYLVAN: Is there non-volume matters though as well? Australia has been charged - because Australia could be charged - - -

MR BOURKE (BIA): Of course.

MS SYLVAN: - - - and I assume that's there too. Is it the case with a number of the bicycles that the individual consumer can actually purchase it cheaper than you could get it from the distributor?

MR LETTY (BSS): That happens. It does definitely happen.

MS SYLVAN: And you're buying in some volume in comparison to the consumer.

MR LETTY (BSS): We had a situation with Michelin Tyres that our wholesale was $49.50 plus GST and you could buy them from Chain Reaction, and we bought them at $33.35.

MS SYLVAN: Except that you would be prohibited by the nature of your contract from doing that parallel importation?

MR LETTY (BSS): We couldn't buy them because of the Michelin distribution.

MS SYLVAN: But the consumer can.

MR LETTY (BSS): But the end consumer can. Even if you're working on the slimmest of margins, you are still asking the consumer to pay double what they can buy them over the Internet.

MR WEICKHARDT: But if you were a retailer in the US or the UK, would that same disparity exist? Could you buy from Michelin in the US at a competitive rate, do you reckon?

MR LETTY (BSS): I don't think it would be as dramatic but I think that there still would be a difference, but that's just my opinion.

MR WEICKHARDT: Because part of the story we've heard from other sectors is that this regional pricing, which grew up in an environment where these differences weren't very visible because people could supply Australian retailers at prices and the retailer could pass it on, the wholesaler just did get a much higher price in Australia. It was a less competitive market, it was a long way away, so people were treated as if, "Well, the consumer doesn't matter, they'll pay." Today, it's a different environment.

MR BOURKE (BIA): One thing I will just touch on very briefly, you mentioned earlier about the changing model, about purchasing it online and then bringing it into the shop. There's no doubt that there are certainly models where that's happening; the president of the RCTA doesn't sell bikes as an example. One of the things - it's a very small sample - but we did a small survey of a thousand consumers. The vast majority of those that purchased online did not go to a shop to have it fitted, so the vast majority of goods are tyres, wheels, a kit, are items that don't need a mechanic to fit them and that unfortunately is the profit margin of the shops. I guess it's the sugar on top of whatever else. So that model is certainly there but because of the nature of a lot of bike products, lights, helmets, you don't need a mechanic to fit those. So that isn't quite the answer that a lot of people are looking at.

MS SYLVAN: Is anybody offering a warranty product and is it legally possible?

MR BOURKE (BIA): Sorry, a warranty - - -

MS SYLVAN: A warranty product. In other words, all these people are buying these bicycles online which don't come under warranty necessarily, which can have problems, and they want to take them somewhere. Has a warranty product evolved through this sort of situation?

MR BOURKE (BIA): Not that I'm aware of, no.

MR WEICKHARDT: I would have thought, to a degree, if somebody walked into me - and I'd be so presumptuous, I'd know everything about running a retail bike operation - but if somebody walked into me with a foreign bike and said, "I bought it overseas but it's broken," I'd say, "Come on in, but it will cost you some money."

MR LETTY (BSS): We do.

MR BOURKE (BIA): Without a doubt, as Nigel said, a lot of people are definitely saying, "Please come back in." As we've been talking to the retail sector, if they buy a $50 bike off you today, in 10 years you will sell them a $5000 bike or whatever price. That's the evolution.

MS SYLVAN: Do you have $50 bikes? I'll be coming to visit you.

MR BOURKE (BIA): No. But certainly the evolution of the customer is as important as anything else. Similarly, the relationship basis which is what's happened there, but we are finding, because of those price differentials, it's harder. Yes, that is a challenge, even though we teach - I shouldn't say "we", there's certainly an approach to teach retailers about the evolution of the customer.

MR WEICKHARDT: Okay. Thank you very much indeed for your submissions. We do hear your point about the GST and we understand it. I'm not sure we have a magic wand but we're still thinking about that and how we can make a recommendation to government that's implementable because we don't have any power, we just recommend, and we've got to frame our recommendations in a format that are seen to be implementable by government, otherwise they have no effect. They just throw them out the window and we move on. So that's uppermost in our mind. We are also driven - and this might not be a happy fact in the minds of some of the retailers - but we're driven not here to protect the retail industry, we're driven by making recommendations which are good for all Australians. There are reasons why tax neutrality is a sensible approach but if it's done in a way that's going to cause huge costs or difficulties to some other part of the Australian economy, then that is a problem. So we have to find our way through that but I'm very gratified to hear that you're also working on other parts of your business model because from what we've seen so far, that's going to be an important part of the competitive response.

MR BOURKE (BIA): Thank you very much for your time.

MR WEICKHARDT: Thank you. We'll adjourn now until 11 o'clock.

MR WEICKHARDT: We will resume the hearings now. Our next participant is Gusto Clothing. For the transcript could you give your name and the capacity in which you're appearing, please.

MR DALGLEISH (GC): Andrew Dalgleish. I'm the managing director of Gusto Clothing. We're a small-medium clothing wholesaler and importer. We supply over 250 stores across Australia with classic and edgy, mid to high price men's and women's clothing from Europe. We sell into approximately eight different niches in the market, including Australian designers under their own labels. We sell from Port Douglas to Hobart, Broome to Newcastle, Subiaco to Geelong, and pretty much all mid-market and up-market areas, and rural areas across Australia.

We stopped manufacturing quality leisure-wear and knitwear in Australia 10 years ago. After I returned from five years in England I wanted to sell Australian wool to the world. We were the first in Australia and about third in the world to knit wool and lycra together with local manufacturers. We couldn't make any money competing against the Europeans, so we stopped manufacturing. I closed the retail store about 18 months ago after losing about $1 million, and have been working on an online supplier, retailer, consumer search engine and clothing matching program for about four years, and three years ago - just recently got the international patent in Europe, America and Australia which we registered three years ago.

I've been in touch with grassroots owner-operator independent boutiques around the country for over 20 years, so I have a fair understanding of what's been happening in the market. We are in the middle of our summer 2012 selling campaign which we deliver in July-September 2012, so we have a fair understanding also of what's happening in the marketplace now. Retailers have been complaining - I've heard it for the last 10 years - that they haven't seen things as tough. Probably since the late 80s, after the problems we had in Australia, there is no doubt in the retail market that we're in the worst state that we've been in. It's more the lack of confidence and uncertainty that's in the marketplace that is concerning. There's never been a more challenging time.

We take retailers for granted - or the consumer does - expecting that they will always be there, and if they're not that another retailer will take their place. Generally for owner-operators, independents and some chain stores, they just cut a living, they don't make any money. They love clothing and that's why they're in it. Retail clothing, probably more than any other industry possibly in the world, is affected by market forces outside of their control, whether it be the weather - if it's cold in summer they can't sell their swimwear and their shorts; if it's warm in winter they can't sell their knitwear; obviously consumer confidence which can be affected by worldwide events or local events; deregulation of the market, why Australia did that however many years ago it was; department stores going on sale when they want. It doesn't happen in the northern hemisphere - America, Europe, England -

anywhere. They all go on sale on a particular date.

In Australia we don't do that. We're allowed to go on sale at any time and that has a major effect on independent retailers. It also has a major effect on the product that they buy, because the window that they can sell at is very short, and that includes the department stores. That's why you can't go into David Jones and get beautiful knitwear in there any more. 15, 20 years ago you could go in there and get beautiful Italian knitwear. You can't now because the window that they have to sell it in is so small because they go on sale. Consequently, it's the same with the independents. After manufacturing knitwear we started bringing in Italian knitwear, and we still bring in Italian knitwear, and we're Australia's number 1 supplier of high-quality cashmeres and silks to the market. We used to sell to David Jones. They don't buy it any more. A lot of the independents don't buy it because of that window.

Rents obviously are affecting retailers tremendously. That will come down. Competition, like any industry; manufacturing costs and the Australian dollar. They are all things that affect the Australian retailer. However, with the introduction of online selling and the internationalisation of retail, the goalposts have moved for retailers, not from here to here, but from here to here. Retailers must change or they will close. There's absolutely no option. Passing trade has pretty much finished. So they need to attract customers and maintain their existing ones through becoming destinations. You've probably heard this from previous speakers. They need to offer a service. The Internet can't. VIP nights are very successful. Retailers that are doing VIP nights are doing extremely well. Special fittings offering a relaxing environment, whether it's a coffee machine - and you see the new boutiques that are doing well, they're offering all of those services. That shopping experience needs to be ramped up. I believe that in 30, 40 years you'll probably see that 50 per cent of consumers still like to touch and feel and going in and buying clothing, but the other 50 per cent will be happy to buy online.

The retail mix needs to also be right. They must have a web site, there is no doubt they must have a web site, not necessarily selling on line. As long as they have web site to drive the consumer, new customers and their customers, into their store. You're seeing that with the large multinational, the Guccis, the Boss's, a lot of them don't sell online but they drive their customers into their stores and that's why a lot of them are opening up monobrand stores around the world in unprecedented numbers, in Chadstone, through the city like they haven't before, Westfield in Sydney. That's the future for those brands and really for the independents.

We're encouraging a lot of our independents to do that and it doesn't need to be that corporate high-designer web site, it can have photos they have taken from their iPhone, with customer of the week. As I said earlier on, the window really now is the Internet, it's not passing trade. If they can put up looks on their web site, they can call their customer, they don't need a PayPal system, their customers trust them and they'll take credit cards over the phone. They say, "Have a look at the new look that we've got up," and they can do that, they don't need a studio to take photographs of clothing and looks, they can keep it nice and common. A number of our retailers, as I say, have web sites like that and they're doing very well. We're now providing a list of those type of web sites, not only Australian but around the world, to our existing customers who need help and say, "Check these web sites out. You too can have one designed like this." Because if you get on it, they want to see something that's common and they can relate to, that's why they go into those owner-operated independent stores.

After discussing this situation, especially up the east coast of Australia, from Terrigal to the Gold Coast, Sunshine Coast, the islands, all of our customers - a lot of the Melbourne and Sydney people that go up there on holidays, what they can do is they will now search online, whether they have to buy the shorts for their husband before they go up or they buy the shorts when they're up or they buy the shorts online. If those retailers can have a presence on their web site, then the customers will say, "Oh, look, Jack's got what we need. We don't need to buy it in Melbourne we can buy it up there." We also now provide clothing with photographs and the retailer will choose a garment that they can have a photograph of rather than one that they don't, so they can instantly put that up on their web site. It's imperative that we create for their customers to check our clothing online.

Retailers who now also want to sell international brands, what they will need to do is sell what we call cross-seasonally. I'm not sure if you've heard of that expression, meaning that they will sell winter in Australian summer and summer in Australian winter. A lot of the high designer boutiques - or most of them - do that already and they will need to do that online as well. A lot of the consumers that they sell to travel and are used to that and they want the latest thing, they don't mind buying it, keeping it in their wardrobe and bringing it out when it's time to. They must do that to compete. That will transfer through to most retailers as well because they will need to compete not only brand for brand but they're competing against other brands that are doing it. It also means they need to go on sale at the same time the northern hemisphere is going on sale. It also means that they need to reduce costs and do exactly what the northern hemisphere are doing, keeping their prices in line with the rest of the world.

As a distributor of European clothing, we try and find clothing that Australia doesn't have but there's a market for and that's commercially viable. What the Internet has done for Australia and the consumer is given them choice. What a wonderful thing that is. Australia really has been starved of choice in clothing since retail started. When I travel overseas, to be quite honest, I buy as much overseas or more overseas because I get the choice, either in Milan or in New York or in London or Paris. We don't have that choice here. Now the Internet provides that for the consumer. It's a magnificent thing. It also allows the consumer to shop around on price and to find the same product cheaper or on sale in another country. As I was saying earlier on, the Australian retailer will need to address that.

Multibrand retailers who have a web site presence are already starting to create their own brands. So we've got stores that have four or five retail boutiques and they are now coming up with their own label. They're not designers but they're copying international brands and international samples which is pretty much what most Australian chain stores do anyway and that way they can get margin and they're not competing directly against international products.

Research shows that consumers - and this is a known fact we know - would prefer to buy locally if they could a similar or the same product. All Australian online product no matter - - -

MR WEICKHARDT: Andrew, some people have tried to quantify that and suggested to us that people would probably pay a premium of something like 20 per cent to buy a local item but a lot of people have said when the premium is a factor of two or something like that, if you can buy it for half the cost online that breaks the goodwill factor. Do you have a sense of what those numbers might be like in your business?

MR DALGLEISH (GC): I think about 20 per cent is probably it. It's like when we go to the campaigns over the last 10, 20, 30 years of "buy Australian" people, when they walk into a supermarket, would generally buy something a little bit more expensive but when it's half the price they won't do it. As I was saying, it's not just the same product but it's similar products. To me if someone is searching online for an international product, whether it be in Footscray, in Toorak, in Campbelltown, wherever, they are competing against their local retailer. That online web site, whether it be in Istanbul, in London, in New York, wherever it is, that is a competitor to the local retailer where they shop. If they know that they could get similar quality similar price, of course they would.

Saying that, some love the convenience of receiving a product in the mail, it's like a present and it comes to them. So why can't we have the same thing here and get online and get it from a local supplier? In my company I've got eight young, 20 and 30-year-old women and we've got parcels coming in every second or third day and they're not expensive - some of them are but some of them aren't. It's the choice thing and it's the price thing.

MR WEICKHARDT: Thank you.

MR DALGLEISH (GC): The Internet for me also opens up the world markets to Australia and to Australian innovators, designers, manufacturers to sell the product to the world and for me that is the most exciting prospect. Someone can make something in their garage or a local warehouse and have the opportunity to sell it to the rest of the world now. It's a wonderful, wonderful thing. Make no mistakes though, the current consumer purchases from outside Australia have just begun and this whole furphy about 460 million in the draft report, if that is correct - and I do not believe it is - it is just the beginning; the current volume of product, it's just beginning.

I've put in here - and I was only thinking about it the other day and I've heard it and read - that the international freight forwarders are still in the process of creating their systems, efficient channels of supply. Can you imagine what it's going to be like, because I believe that packaged food and refrigerated food will be able to leave or will be crisscrossing the world once the channels, the freight forwarding channels, are right. Packaged crocodile and kangaroo going to the German consumer, it will happen, there's no doubt. Mangoes and King Island brie, it will be coming in and it will be going out. We will have an amazing opportunity in the future there but we need to be part of it and get our system right now.

Competition is healthy. Unfair competition is wrong and unfair competition from within our own country makes me cry. It's simply stupid, I believe. We are competing against the world and that's what we do in business, we compete. With the internationalisation of retail, both bricks and mortar and online retailers are now competing for the Australian and international dollar. There is no other way I see it. I see Australia like a company, competing against other companies around the world. Our retailers, our web sites, our sales executives are our marketing and distribution channels, selling product, taking orders, providing income and creating employment.

Every time an international web site sells a clothing item to an Australian consumer, Australian money leaves Australia. It leaves and we don't see it again. I don't understand why we aren't doing everything in our power to keep that retail dollar here. Treasury estimates the GST revenue forgone might be 460 million in 2010-11; we know it's more. However, let's assume it is. What about the rest of the money that makes up the price of that clothing item? That's 10 per cent. So what about the $4.6 billion worth of consumer turnover that's left the country? There's no discussion on that. I can't understand that. It's taken out of the Australian economy. The margins that are in those retail dollars that are leaving Australia, those margins employ people. That's what they do. The profits also are leaving our economy.

Australian business can't expect to provide the Australian consumer with the choice they get from the Internet. We totally understand that and we will not be able to stop it. However, we should be able to provide our retail businesses with the best opportunity to compete. It's our duty as managers of the country. If I as an Australian wholesaler/distributor buy an item from a manufacturer/supplier in Germany at the same price as an American distributor and they price and sell their garment according to their freight charges, duties, taxes and margins, the Australian distribution price may be slightly more expensive because of the freight charges from Germany to Australia but generally it's in the same ballpark. There might be rebates and other things that change the price slightly but it's generally competitive.

However, the GST and the VAT in those countries is usually more than in Australia, so therefore the price realistically at the same time of the year, in the same season, is about the same price. The retailer should be able to price our garment competitively. However, if the international retailer exports the garment, they receive their duty, VAT or GST, back from the government, which means they can drop their price selling into Australia. The Australian retailer doesn't get the benefit of doing that, yet the government also gives a tourist back money if they spend over $300. I can't see the logic in that.

Currently we supply a tax rebate for the tourists which is generally in line with what they do internationally. So if you buy a garment overseas as an Australian, you get a rebate coming out of the country, yet we're not in line with the world practice as far as importing. I don't understand why there's a difference there. That whole area I haven't had a lot of time to finetune, but there is an anomaly in there for the Australian retailer.

The draft report from the Productivity Commission clearly shows that our competitors, except Hong Kong, tax items a lot less than a thousand dollars. If our international competitors tax us selling into their country and tax their own consumers when they buy from their own national retailers, give their retailers tax relief for exporting and therefore because our country does not impose a tax, the product comes into Australia cheaper than pretty much anywhere else in the world, apart from Hong Kong. Going on the draft report, it is clear to me we need to be line with the rest of the world. For those who have read the report, it is absolutely clear to me. It looks as though the English or the Canadian system is the most efficient. As the report says, some countries emphasise the economic costs and the benefits; others place more emphasis on the equity. For me, it's more on the competition, that we should be in line, if we as Australians want to sell to the world and therefore sell t our local consumers.

There seems to be a perception that setting up a system to monitor and manage the collection of a low threshold for imported product will outweigh the revenue collected. I've never heard so much baloney to be quite honest. To me, it's this unknown quantity. It's a daunting task. There's no costing that's been done. How can we say that? The fact that we're losing 460 million now, what happens next year when it increases and the year after and the year after? If it takes a billion dollars to set up a system, then let's set it up. It's going to last for the next 10 to 20 years. From a revenue point of view for the government, it's an no-brainer.

MR WEICKHARDT: Okay. We haven't got a lot of time left but we've got a few questions for you. I was intrigued by your comment that you thought that in the fashion industry, the online space might get to a 50 per cent market share. That's a pretty extreme figure for an area where I would have thought touch and feel and the instore environment had a pretty significant advantage. Is that just your personal view or is it a widely held view in the industry?

MR DALGLEISH (GC): It hasn't hit Europe yet. It's hitting them but it hasn't hit the Italians, it hasn't hit the Germans. If you look at the big international web sites, they're just bringing in a lot of those European countries now. It hasn't hit them. They have no idea what's happening, absolutely no idea what's happening in Australia, how much it's affected us. I'm over there three to four times a year and I'm talking to manufacturers, high-end designers to mid-market brands, very successful brands and the movers and shakers of the industry at trade shows. They have no idea. You can see it happening. I'm talking 10 to 20 years. that new generation. My children are 10 and 15 and at school. they're having lectures for the parents on what the Internet is doing. Some of them would be happy to install an Internet in their arm. It's inevitable. Especially as search engines become easier. I'm sure if you knew you could get the right product that fits you and is comfortable and looks good, you'd prefer to be at home or playing golf than walking up the high street.

MR WEICKHARDT: In my case, you're absolutely right.

MR DALGLEISH (GC): I hear that every day. Some people love the shopping experience, especially more women than men. To be quite honest, I love the shopping experience. I'm into it, but most men aren't. The women who buy for their men, they would love it if they knew what - this online system that I've been creating allows, once you put your details in, your complexion, it gives you the right colours; the right colours that work with your complexion. Once the system knows that, knows your size; knows what style - whether you're classic, whether you're sporty, whether you're dramatic, whether you're romantic, and there are international standards. Once the system knows that, you'll be able to shop without doing anything, and the clothing will be right, and it will be online, saying that, "You bought this product. Here's a shirt that goes with that suit. Here's a pair of shorts that goes with that polo. Here's your golf gear."

My system gives you an option of going in, and saying, "What do you want clothing for? Do you want it for leisure? Do you want beach wear? Lingerie? Sporty?" You open up Sporty and it has got every different sport there is, golf and it will have - whether it be Gant, whether it be Ralph Lauren, whether it be Country Road, whatever, it will all be there. You'll be able to search for a pair of satin trousers, and it will ask you the price point, the whole lot, and it will tell you whether there's one in Frankston, one in the Gold Coast or one in Detroit, and it will come to you.

MR WEICKHARDT: Do you see a role for the local retailer still in this new world or will people basically from their home interact directly with your web site and buy directly from you?

MR DALGLEISH (GC): No, mine is not a web site to buy from me, mine is just a search engine that everyone can use. As I was saying earlier on, the local retailer is now competing against online retailers not just locally but internationally. So, yes, they can. They can drive that consumer into their store, because there still will be that 50 per cent of people. They love to go in and have a chat to the local retailer, sit down and have a coffee; there will still be that. But when the system is finetuned it will get to 50, maybe even more; it's inevitable.

If you asked all the people here how many would prefer to get the same clothing that that they bought last week that they're happy with that, if they would prefer to go out and search for it and buy it or have it come to them without searching, you'd probably find more than 50 per cent would say, "I'd rather have it here, without searching." Humans are smart enough to design a system to do that. It will happen. My patent attorneys, Davies Collison and Cave, could not believe after I registered it - and it was from the retail business called Styleroom that I'd registered it - that the Americans after that, about three or four months later all of these patents were coming in - luckily, we were first - on the same type of system. It is inevitable, especially with that new generation, I believe.

MR WEICKHARDT: Thank you very much.

MS SYLVAN: I appreciated your exposition of the way fashion retailers are going to have to think and the fact that they're globally competitive. We have heard, in our submissions and from others in the fashion industry, how tough it is. As you say, it has never been tougher. I am intrigued that at the same time we have a new, completely international bricks and mortar entrant who obviously thinks they can make a dollar in Australia, or they wouldn't be here. So if I put that altogether, it seems to me that what you're saying is right, leaving the tax neutrality issues to one side for the moment, but that in a sense it's the nature of the offering and how clever it is and how much it intrigues the consumer and if they have got a good offer and they think they can complete in this country quite adequately. Would that be a fair representation?

MR DALGLEISH (GC): You're talking about Zara or Topshop?

MS SYLVAN: In the fashion industry Zara has come in, and in other areas of course we have had other competitors come in, the food industry and so on.

MR DALGLEISH (GC): Yes.

MS SYLVAN: So there's still international entrants into this country who think they can do quite well.

MR DALGLEISH (GC): There's absolutely no doubt. The Australian retailer really shouldn't be afraid of that. The rest of the world has it, it is already there, and to me it's a wonderful thing. Getting back to earlier on, it's giving the consumer more choice. It's a great thing. We need to be smart - Australian retailers - and compete differently. If you look at your Sportsgirls, your Espirits, your Ojays, those main chain stores which have 20, 30, 40, 50 stores, they have been copying international clothing, that is how they have got where they are. I have worked there and my family has worked.

They travel the world, to Topshop, to certain department stores, buying samples, come back, go into Just Jeans or into Sportsgirl and say, "Right, we can produce this out of China at this price." They go, "Great. We'll have this colour, this colour and that colour." That's pretty much what has been happening in Australian mainstream fashion. It's great now that the consumer can go in and have this wonderful new choice where it's fast fashion and it's new and its different.

Those mainstream ones they will probably struggle more than anyone, because they are ripping off the Zaras and the Topshops. As soon as it comes in to the Topshop, as soon as it's designed, their buyers are over there buying it and it's on the high street here which is great, because it's also giving the Australian consumer fast fashion as well. But it will have an effect on them. That small business, that local clothing retailer, which is pretty much in every suburb around the country, if they're smart they can survive, there's no doubt.

But they need to have a web site to drive their customers in, because even Zara can't offer that service, David Jones can't offer that service, Myer, and the chain stores can't offer that personal service. You're dealing with the owner-operator or a manager that knows your size, that really follows you up. When a garment comes in they call you and say, "Your beige trouser is in, sir," or "John, come and get it and "I've got a couple of shirts here for you to look at," and they lay it out and it looks beautiful. If they get it right, there is a market.

MR WEICKHARDT: Andrew, we're out of time. Thank you very much indeed for your submissions and thank you for coming along. It has been fascinating hearing about the things going on in your industry. Thank you.

MR WEICKHARDT: Our next participant is Star Audio Visual Association. If you could give your name for the transcript please and give us a brief summary of the things you want to say.

MR SAWYER (SAVA): Yes. My name is Philip Sawyer. I am the chairman of the Star Audio Visual Association of Australia. We are an association of specialist retailers of audiovisual equipment around Australia. The association has been in existence for about 15 years and represents those companies which are focused on the specialist area of hi-fi and home theatre products which range in price from small value items right up to very large ticket items. We put a submission to the Productivity Commission which has been accepted as submission 13 in relation to the low value threshold which has affected our industry and is continuing to affect our industry and seeking to get some sort of tax equality for not only our members but also the Australian wholesale and retail industry generally so that we can compete both nationally and internationally in an equitable and fair fashion with businesses.

I think right now we've got this incredible inequity, not just in relation to GST but in relation to duty as well, where Australian businesses are being put at an incredible disadvantage relative to foreign enterprises and I think that that's something which, from a tax equality and a tax levying perspective, needs to be addressed fairly urgently because it is having a dramatic economic impact, both on our members and on the retail industry generally. I should stress at this particular point that we are not trying to protect or subsidise Australian industry, we are looking for a level playing field and I think that's something that's missing right now from the situation.

We're trying to give Australian businesses the opportunity to develop and compete in a way that allows them to develop relative to foreign businesses like Amazon and wiggle.co.uk which concurrently exploit the Australian taxation system to their advantage at the expense of Australian retailers and wholesalers and that's jeopardising jobs and it's jeopardising tax revenue for the government and it's obviously jeopardising the prosperity of our members. I've got a number of comments on the draft report. Did you want me to go through those?

MR WEICKHARDT: Quickly.

MR SAWYER (SAVA): I'd first off like to thank the commission for going through and preparing such a comprehensive report. A lot of thought has gone into that and to get someone to do that is obviously greatly appreciated. In general we agree with the commission's broad finding that broad based consumption tax in the form of GST which we have should apply fairly and equitably to all businesses and we certainly support that. The issue comes down to this principle of efficient collection which was raised by the commission as being the log jam which, from our point of view, is a very, very dangerous situation because people's livelihoods are at stake already and are becoming increasingly so and we're concerned that this is going to take a very, very long time for another draft investigation to go into how tax should be collected at this level and more businesses are going to suffer and go out of business as a result of this.

So we certainly feel that the LVT should be lowered to a level that's equitable for our participants as soon as possible on that basis. Obviously we want to stress that it's not just GST, it's duty. So I certainly support the last speaker in the fashion industry where there is significant levels of duty, where it's almost impossible for those retailers to be competitive on an international basis where they are up to 20 per cent behind the game before they even start. There are obviously a lot of other factors which contribute to Australian retail and wholesale prices being higher which we have to deal with, such as higher rent, higher labour costs and the big one which is economies of scale. A lot our members and other retailers cannot ever get the economies of scale that Amazon or Wiggle have got in foreign markets.

So to put a 10 to 20 per cent impost on Australian companies while you're effectively subsidising these foreign entities through the LVT is an extraordinary situation because they have such high levels of competitive advantage through all the economies of scale that they have access to which Australian businesses I think realistically can hardly obtain. We're not asking for a handout, we're not asking for a subsidy, we're asking for a level playing field so we can at least have a chance to compete with these very, very dramatic competitive forces that exist outside Australia. To have the Australian government effectively tax us and not tax foreign businesses who have a number of advantages that we don't have access to is an extraordinary situation and it's costing jobs and tax revenue.

I think you have probably heard that a thousand times over already so I don't mean to earbash you there. Just going through the draft report to the efficient tax collection issue. Obviously a number of times the word "dead weight" to the Australian economy was used in relation to the current collection methods. We would take issue with that terminology because as the commission said by its own words, there has been very little examination of the costs of collection. So far it's been some information which you've got from a number of sources but there's been nothing firm. So I think to start using words such as "dead weight" if we were to lower the LVT is a little bit premature at this stage, particularly when there is a number of indirect economic benefits by allowing Australian businesses to compete.

If we can develop jobs, develop small to medium enterprise in Australia by not favouring foreign businesses over Australian businesses, then you are in fact helping Australian businesses grow and you're helping the Australian economy develop in a way which is very, very important. If we were to continue with this $1000 LVT situation, then we're effectively wiping out large portions of the Australian economy and not giving them to chance to grow and compete in a way and develop in a way that they should be allowed. Once again I stress it's not asking for a subsidy. We're not favouring bricks and mortar retailers over Australian online retailers but every business in Australia should have the right to run an online business and not suffer some cost impost that a foreign multinational is exploiting and taking advantage of.

Obviously, similar to the last speaker, the one thing that we noted was that Australia's LVT is not only a little bit higher than other jurisdictions, it's dramatically higher. It's out of the ballpark. Just to put in context, it's 35 times higher than the UK's LVT. It's three times higher than New Zealand's. It's five times higher than the US and it's 52 times higher than Canada. So in taxation terms, when you suffer a 10 or 20 per cent difference in tax based effects, when there's 100 per cent difference there's fairly significant effects, when there's 3500 per cent difference, in the case of the United Kingdom or Canada there's incredible differences which start to have fairly dramatic economic impacts.

If I can just comment a little bit on the tax collection side of things. One of the points that's made is about the volume of air freight that's coming into the country and how difficult it is to collect taxation revenue based on this. One of the concerns that has been raised by a number of our members who do import some high value items is that we've already had instances where people have exploited the LVT in what perhaps could be regarded as a fraudulent fashion where items beyond $1000 have been brought in with false declarations and with such a high LVT of a $1000 limit, it actually encourages people to potentially exploit that sort of system because if something is worth $1500 or $2000 then someone can easily put an invoice in there for $900. We have had a number of instances where people have already established that this has occurred. A number of our members have given us some information where this has been already proven. The other point which we'd make there is that one of the major objections raised to lowering the LVT is the volume of airfreight that is involved. By not lowering the LVT now, we actually are encouraging that volume to increase.

So I'd agree with the last speaker in that we have an opportunity to develop a bit of equity right now and develop a system which is fair on all participants. If we don't, we actually make the problem worse, by increasing the amount of cargo coming into the country and making the job more difficult should we ever want to change something in the future. A lot of the costing so far is about the direct costing, and, as I have mentioned earlier in my submission, there's a lot of indirect benefits to the economy in the form of business development, tax revenue collected from company taxes, jobs provided and Australian innovation and development, which can come from the small to medium enterprise sector of Australia and for us not to be supporting that segment of the industries is quite extraordinary I think.

I also note that the commission stated that reducing the threshold by even $100 to, say, $900 would be feasible but argues that because 99 per cent of articles still fall under that threshold it would not address the level playing field concerns and I understand that point of view. It does miss the point on one element, in that it does not address the issue of value. If you're just looking at the volume of articles coming in you're not looking at the actual value that might accrue to some of those higher priced items. While 1 per cent of the articles might actually be in the high value section, if you actually look at the value that that percentage creates relative to the number of articles coming in, it could be quite large in terms of value. So from an economic point of view - - -

MR WEICKHARDT: It's not really.

MR SAWYER (SAVA): Yes, okay, there's obviously a curve. But it does have an impact; there's no doubt about that. We are just trying to make sure that we get some equity about that.

MR WEICKHARDT: We have only got until 12.00. So if you want to allow some time for us to ask questions - - -

MR SAWYER (SAVA): Yes. I'll just check to see if I've got through the remainder of my comments. Again, we do appreciate what the commission has done in terms of actually looking at it and we would encourage that this is a very urgent issue for our members generally. We appreciate that the commission itself says that it's drawn from very indicative rough numbers, which I think is one of the big problems, because it is actually impacting people's livelihoods right now and that's the part that is concerning for our members. I have already mentioned the issue about fraudulent articles coming through under this $1000 system.

Obviously there is the possibility, in terms of looking at tax collection, of putting in some sort of self-declaration system, where you make it law that any article coming in over a certain level - like, $20 if it's Canada or $50 if it's the UK, or something similar to that - gets assessed. If you put the cost of that clearance and assessment back on the individual who wants to do it, then that would help fund the potential shortfall I think the commission identified. Obviously there is a costing issue and it has to be paid by someone.

To allow individuals to bring in from foreign enterprises but then to tax small to medium enterprise who is bringing in on a larger scale, just because you can, doesn't seem to have a lot of economic veracity and it leads to incredible tax distortions in the system, which is already occurring with this situation, contributing to an unfair growth in online transactions; which we are not against, I should stress, we just want it to be in an equitable fashion. So that's obviously one of the big factors there.

MR WEICKHARDT: Do I assume that all your members would therefore like to pay payroll taxes, because I suspect most of your members are probably below the threshold for payroll tax.

MR SAWYER (SAVA): Some of our members pay payroll tax, some of them don't. Payroll tax is an impost that is state based - - -

MR WEICKHARDT: On the basis of equity, do the small guys clamour to pay that?

MR SAWYER (SAVA): I didn't actually come to make a submission on the equity of payroll tax; I have got very strong views on that myself.

MR WEICKHARDT: My point is only that there are thresholds everywhere in the tax system and - - -

MR SAWYER (SAVA): Of course.

MR WEICKHARDT: - - - those people that do pay taxes, hate the thresholds and those people that don't, keep very quiet about them. So it sort of cuts a lot of ways.

MR SAWYER (SAVA): The difference with payroll tax is that when it comes to Australian businesses they all have to pay it, and it's company tax and in other jurisdictions - - -

MR WEICKHARDT: Not all businesses pay payroll tax.

MR SAWYER (SAVA): Once you hit the threshold, you do.

MR WEICKHARDT: Sure.

MR SAWYER (SAVA): That's right. But we're talking about a national situation here, where if you keep your business small you don't pay payroll tax, so that's your choice. What we're talking about here is subsidising foreign businesses over Australian businesses.

MR WEICKHARDT: I think we understand your point.

MR SAWYER (SAVA): That's the difference between the payroll tax situation - - -

MS SYLVAN: I would point out that the problem does exist in the United States.

MR SAWYER (SAVA): Of course, yes.

MS SYLVAN: Although those people from one state might think these foreigners from another state are not paying tax.

MR SAWYER (SAVA): Yes, and that happens in the United States.

MS SYLVAN: It's precisely the same problem as - - -

MR SAWYER (SAVA): It is. One of the differences in the United States situation is that the tax levels are so much lower.

MS SYLVAN: They're vary considerably.

MR SAWYER (SAVA): Yes, they vary, but they're in some cases low.

MS SYLVAN: Anyway, I'm just saying that this is not a unique problem to Australia.

MR SAWYER (SAVA): Correct. Yes, that's true.

MS SYLVAN: Can I just come to your issue that the high threshold actually leads to higher noncompliance with declaration. I would have thought absolutely the opposite would be true.

MR SAWYER (SAVA): We have already had a number of examples raised by our members where people have brought product in that's imported by some of our member companies from foreign businesses, like, in Singapore or other jurisdictions which is over $1000, which has value well beyond $1000 in many instances. The foreign retailer has put in an invoice, $900, or they have put in multiple invoices, to hit that, and then the product has come in, not been assessed, or been assessed but been assessed as being below the LVT, and then come into Australia without having proper clearance in a situation where that article would have been if it was correctly assessed.

MS SYLVAN: Why wouldn't it be more true if the threshold was $100, where we have 99 per cent below $1000 - so actually below $900 actually coming into the country, and a huge preponderance of that is below $100.

MR SAWYER (SAVA): Yes.

MS SYLVAN: I mean, surely, just on numbers, you would have far more noncompliance with people at the margin of $100 actually.

MR SAWYER (SAVA): That's true. But the economic damage that would be done in that situation would, number (1), be a lot lower, because with most of the articles would be coming in and getting - there would be a much higher level of payment.

MS SYLVAN: Depends on the volume, doesn't it?

MR SAWYER (SAVA): The second point I'd make about that is that more valuable articles which are overtly obviously more valuable, such as a $2000 amplifier or a $900 amplifier, would almost automatically be caught by that situation. So it would be much harder to exploit that situation when there was obviously such a low LVT threshold. With the LVT being set at $1000, who is to say something that is $800 or something is $1200? There are going to be arguments this way and that. When it's brought down to a more realistic level, such as what exists in the United Kingdom or Canada, then it just becomes obviously a question of, "It has to be assessed. I'm going to pay that GST." Of course there may still well be lots of opportunities for people to exploit that, and I don't doubt that that would occur.

MR WEICKHARDT: If you read all the debate going on in the UK in the houses of parliament about the people trying to fly under their threshold, I think you'll find that, regardless of the threshold, there are people who will try and distort it.

MR SAWYER (SAVA): I agree.

MR WEICKHARDT: Anyway, look, we have spent a lot of time on that particular issue. In terms of the degree to which there is rorting of the system, the Customs trial did identify some incidents of this, but it was a very low statistical incident.

MR SAWYER (SAVA): I would argue that there are quite a few products coming in that are not being raised. I know that in the two instances that were raised to our association they were established and identified by the Australian importer and got completely by Customs without them knowing at all and these were on high value items, I stress. So they do have such an impact on our member businesses.

MR WEICKHARDT: These are imports by your members?

MR SAWYER (SAVA): Yes.

MR WEICKHARDT: In those situations, assuming your members are big enough to be registered for GST - - -

MR SAWYER (SAVA): Correct.

MR WEICKHARDT: - - - there is no tax leakage at all which is - - -

MR SAWYER (SAVA): Apologies, no, these are products that would normally be imported by our members but were imported by individuals from foreign competitors, thus causing our members to lose money, lose that business. In many cases we get asked to provide warranty support on these products which, if we're smart enough, we can decline because we can track the serial numbers of our products. But there are many importers that don't have the ability to do that and, of course, there are many products that we can't track the serial numbers on. So we end up providing support for foreign businesses to our detriment.

MR WEICKHARDT: I thought most retailers would demand some form of receipt to demonstrate it had been processed. Are any of your members selling and competing in the music area? Is that an issue for you?

MR SAWYER (SAVA): In terms of software and - - -

MS SYLVAN: Download.

MR SAWYER (SAVA): Yes, some of our members do sell records or compact discs and that sort of thing so there's obviously a competition issue but they don't derive most of their income from that channel. Obviously intangibles is another question again and I think there is always going to be technical challenges when you're dealing with the online space. I don't purport to come to the commission with a solution about how it should deal with that situation but we just stress, as all of the submissions I'm sure you're hearing, that there is incredible inequity right now which is having a dramatic impact on Australian small to medium enterprise and I think that is something which has to be dealt with incredibly urgently because people are going out of business right now. Not necessarily as a direct cause of the LVT but it's a substantial factor, one of many factors, which, as the commission already agrees, that's impacting the competitiveness of Australian retail.

If Australian retail is at a competitive disadvantage because of the current tax regime, which it is, then we don't even have the chance in some cases to develop or grow or prosper and to develop new and innovative ways of getting products to consumers and to compete in a way that consumers want us to provide product. We're in an unfortunate position because some of our products are below the LVT and some of our products are higher than the LVT and there are electrical implications and there are warranty implications. So we, to some extent - at least our members - our members have some natural protection. We have other complications as well, which perhaps other businesses do.

So I very much feel for the fashion industry right now. You get an incredible disadvantage because there is up to 20 per cent difference and I know that's impacting our retailers and impacting any retailer that has to compete with a product that can be purchased online.

MS SYLVAN: Can I come to the deadweight loss issue and our concern with that. Our concern is not simply in relation to consumers sitting waiting with the cost of collection and things like that, so it's a community cost.

MR SAWYER (SAVA): Sure.

MS SYLVAN: But, just for the sake of a number, if we lowered the LVT very quickly to an extremely low level and there's something like 40 million parcels or whatever are going to have - the logistics of actually suddenly having to assess 40 million parcels for GST. So you can understand, apart from the government's necessary investment in Australia Post to achieve that because a shareholder is the government.

MR SAWYER (SAVA): Of course. No, I certainly appreciate that.

MR WEICKHARDT: Some of those parcels for destined for other businesses.

MS SYLVAN: I'm very surprised we haven't heard a concern about that. The system would grind to a halt if it's not done properly.

MR SAWYER (SAVA): Yes. I certainly understand that and I think that there are a multitude of models that could be chosen here that would minimise that cost. I certainly agree with the last speaker in that I do think that the economic cost of enforcement can be spread across a number of parties, not just the government. We had a system up until 10 years ago that meant that anything coming in had to be assessed and we changed that. We're in a very, very different situation right now with the rise of the online business and I'm sure you appreciate that.

From our point of view if that, at the minimum, is brought down to a more realistic level in line with our trading partners or, alternatively, should the government wish to retain the LVT, then all businesses and consumers should have access to the LVT, not just the end user or the business importing one article under $1000. Any article that a business that one of members imports - so they might be importing 500 $800 items, for example, on that entire shipment they shouldn't pay GST and duty so that they can compete with foreign businesses who are not paying the taxation and not providing Australian jobs. Right now that does exist and that's become a more pressing - each day that we don't change this law one way or the other, either making it LVT for everyone or lowering the LVT to a level, is a day that affects small to medium enterprises in Australia at a very time when we should be making our enterprises more competitive and giving them a chance to compete both nationally and internationally.

MR WEICKHARDT: I hear those comments. I also go back to the comments you were making that a lot of your members have higher costs and they buy less effectively than people like Amazon.

MR SAWYER (SAVA): Not in all instances.

MR WEICKHARDT: No, but you were saying people like Amazon have incredible advantage of scale.

MR SAWYER (SAVA): Economies of scale.

MR WEICKHARDT: I have to say if you look down this and you distance yourself - which I know is hard for you because you're representing your members - but you look down on this from the point of view of the Australian consumer and you say, "If this is a more efficient way of getting low priced goods to the consumer and giving them what they want, then so be it." If that means that Australian retailers move out of that sort of business and move somewhere where their services are more valued, then this isn't a bad thing.

MR SAWYER (SAVA): We don't have an issue with Amazon existing. We don't have an issue with online. We don't have an issue with competing with foreign businesses at all. I want to stress that.

MR WEICKHARDT: Okay.

MR SAWYER (SAVA): This is a thing that I think, to some extent, is missing a little bit from the draft report so far. What we're asking for is the ability to have tax equality. That's what we're asking for. Right now the LVT subsidises Amazon at the expense of Australian business. That's the point. We're not asking you for protection. We're not asking for a tariff. We're asking for tax equality so that we have a chance to grow into the next Amazon. How can an Australian retailer, be it a bricks and mortar or an online retailer like Mr Cogan, ever hope to develop into a national or international powerhouse if the Australian government is putting them at an impost?

MR WEICKHARDT: It's interesting, Mr Cogan doesn't think this is an issue at all.

MR SAWYER (SAVA): I'm just choosing him as an example.

MR WEICKHARDT: Maybe that's a bad example.

MR SAWYER (SAVA): I'm just choosing him as an example of an online business in Australia.

MR WEICKHARDT: But can I just check - because we have to finish in a moment - you haven't mentioned any other recommendations we made in the report. Do I take it from that that your association supports all the other recommendations we made?

MR SAWYER (SAVA): No, we made a submission explicitly on the LVT. We haven't made any other direct submission on other parts of the report. We certainly appreciate the incredible effort that the commission has gone to.

MR WEICKHARDT: So things like zoning and planning and opening hours and things of that sort aren't of interest to your members?

MR SAWYER (SAVA): They are of interest, but we haven't made any explicit examination of those subjects. I think, in fairness, the LVT is such a dramatic factor in the livelihoods of certainly our importer members but also our retailer members because the retailer members are suffering. Say a $500 product, they can't get it to an Australian consumer at a competitive price.

MS SYLVAN: Can I ask you to what extent that's the GST and to what extent it's the fact that they can't get a deal from their supplier.

MR SAWYER (SAVA): Speaking from my own personal experience, there is absolutely no difference in the Australian pricing system from what would be in the United Kingdom, from what would be in the United States.

MS SYLVAN: There's no price discrimination in your - - -

MR SAWYER (SAVA): No. There is always pricing issues of a multitude of - it's a very complicated area. In our industry you can have up to a 15 per cent difference based on the 5 per cent tariff protection on products like amplifiers and loud speakers and cables which is obviously a relic from our old tariff protection from a century ago, plus the 10 per cent GST. If I'm a consumer, why wouldn't I save that 15 per cent off the bat and possibly - there are other factors, of course, they can get it quickly and so forth. But if the product is available in Australia and retailer has it and wants to sell it and in very many cases the retailer is the one that has actually got the customer interested in the product in the first place.

One of the most common complaints we get from our retailers is that, "I had this customer come into my shop, they spent one to two hours of my time, I gave them the service, I showed them the product, they decided they wanted to buy the product and they come back in the next day and say, 'I can get it online at 20 per cent cheaper. Can you match that price?'" Now, that's a direct tax effect. There are other factors, of course, in there as well. Those other factors, we're not asking for protection from rent, wages, all these other factors, they're things that just exist by being in business and Australia has its own situation there.

But when you've got a tax inequality that is leading to our members being discriminated against by the consumer - and I'm not against the consumer here, the consumer is doing the right thing. If I'm a consumer, I'm going to go for the lowest cost. But when we're talking about margins that are sometimes five, 10, 20 per cent in total, when there's a 15 per cent difference in cost from a tax effect, then that's it, we've lost the business.

MR WEICKHARDT: Okay. I think we've heard your point. Thank you for making it.

MR SAWYER (SAVA): My pleasure.

MR WEICKHARDT: Thank you for your submission.

MR SAWYER (SAVA): Thank you again for all of your efforts.

MR WEICKHARDT: Our next participant is International Dynamics. If you could please give your name and the capacity in which you're appearing.

MR ENCEL (ID): Alex Encel, the chairman of the company. We are importers, retailers and wholesalers, so we have a foot in three camps.

MR WEICKHARDT: If you can give us a brief summary of the points you want to cover today.

MR ENCEL (ID): My area is more the consumer electronics part of the - especially in the audiovisual sector but it applies in a general sense. I want to talk about the misinformation that I see on a practically daily basis about the whole subject from media, politicians and it gives a very distorted idea of the situation and I can think of at least one simple step that would cut down the false importations by just a bit - work on a typewriter, but anyway I will come to that in a moment.

The first thing there are no general rules in this. I'm not going to speak about the difficulties of book sellers or DVD sellers, they have their problems, so I'll stick to my area. The first one is Australia lags behind other countries in the use of the Internet for retail sales. When I look at the material in the papers, it's nearly all American based. There are no comparisons with the French Internet, the German Internet - which actually I know a little bit of the language and they lag behind us in a lot of ways. Where's the Irish Internet, the British Internet, where's the Canadian one? Somehow the Internet is America and America is largely Amazon. There is only one Amazon in America. There's no number 2 Amazon and we are not going to have a number 2 Amazon in Australia or number 3 or number 4. There just isn't that capacity.

That capacity in America is based on historic reasons, factors that can't apply in Australia or in other countries as well. The first is they've had Sears Roebuck as a catalogue for over a hundred years. It's part of the American DNA. That's one factor. Then they haven't got that local tax. When you ship interstate you don't pay the local tax. A very simple way to boost the Internet sales in Australia - eliminate GST if you ship interstate. I don't suggest this is a practical alternative but this is one of the reasons why America are so successful in this. I've seen articles in the past, "Would Amazon have ever started if they didn't have that differential?" It's ancient history now and they have that differential so no-one will know that one now.

So then you go back to reportage in the papers. I've got one here. "Shop prices sky high. 85 per cent on average retail mark-up on electrical and electronic goods." I thought, "Wow, I'll be a multimillionaire in a few months. This is terrific." So then I rang the reporter who told me in a very ponderous way that he was told this by the Australia Institute. I thought, "I'd better check the Australia Institute." So I downloaded their material - this is all on the same day - and looked at the comparison, this is a Sony Bravia, Australian equivalent $1999 and in other countries about $1000. I thought, "Gee, that's amazing, a 100 per cent margin." Australia Institute, they're a prestige organisation. So I looked it up, I got to 25 per cent which can be accounted for - this is on Amazon - by two facts: the first, that they are 15 times as many roughly sold in America as Australia of that particular model and the model is simpler because it's designed for American conditions.

So I contacted the Australia Institute politely - I'm a polite sort of person - "Yes, send me the details." I sent the details. No response. I wrote again. I suppose it's rather embarrassing to point out that you're wrong. Actually I worked it out later, I got another source, I could get it down to about 15 per cent differential. But it's that sort of thing that keeps coming up constantly. One of our politicians advocating on the ABC that what retailers need to do and it was something like, "Employ better staff, have more of them, and cut your costs." I thought, "Wow, that's the way to do things." I think he should have gone to economics 101 at his school. So this is a constant thing.

Anyway going back to this, Australian retailers are ineffective and inefficient compared to other countries. Len Wallace Audio in Sydney - I know him and he was voted one of the best audio stores in the world - by the way he's also a competitor in one sense. Somehow there's that sort of thing that we're either better at everything or worse at everything. We're much the same. There are a lot of retailers in Australia that are better than their American counterparts or European counterparts and I'm sure you'll find ones that are worse. You can pick your examples to suit your case. In fact a lot of the Internet material on Australian web sites is done from the same programs as what they use in other countries. So we're not much better.

I'd say in service we're probably better simply because the people here are paid better. In America, if you go to a lot of the electrical shops - now, I can understand American accents pretty well but sometimes I have a real problem. I checked with a local friend and he said, "Yes, sometimes I have a problem too." You've got people who are paid very low wages so their service isn't so wonderful and you can find good and bad examples. But every time it comes up in the paper, it's the bad example from the local retailers and the good example - where there's some letter quoting, bicycle parts. Some little bicycle part and it's cheaper in America and that evil exporter won't let it be exported to Australia. I thought, "Well, that sensible exporter knows that if he's going to have these little parts, you'll be" - he won't have an Australia agent, the firm will disappear and he doesn't want that. So he is just being normally pragmatic and sensible.

Then I go on to, "Australian retailers charge too much and make large profits." This is exactly as I've seen in media. "They should drastically cut their prices." If you look at retail prices in Australia, the margins, after all costs, they're probably about 3 to 5 per cent average. There are exceptions, you can say about 7 or

8 per cent and there are ones that are minus. But let's say it's in that low percentages. So if every retailer in Australia cut their prices by 5 per cent I think most of them would go out of business if they didn't change anything else. So it's not the high profit margins they're chasing, it's the high costs which you've gone into at some length and I don't have anything original to say there. But they are not making large profits and this is why so many of them are closing down. I see in our dealers quite a few are disappearing. I'm sure you've noticed that with yours.

Now, you could say see this is Darwinian and this is part of, let's say, the way to make us more efficient and they can always go to work in Western Australia on the mines and earn much more money and take the economically logical choice, but anyway, they are not making these high profits. In Richmond, where our retail store is, out of 50 shops nearby us, you would rarely have one vacant; there are 14 vacant. Are there all these people making these 85 per cents or these enormous profits? The answer is simply no. They're not making those sort of profits. It's just part of that nonsense that's put around.

"The Internet will dramatically cut costs." Well, Harvey Norman made a lot of statements about having an Internet site, and that's good. We have an Internet site, so do others, but you don't cut much cost. What happens is that your Internet site - you have the same bricks and mortar, you're paying the same people. If you want to run a good Internet site, you have to employ more people, not less people, and somehow this is going to cut costs? This is crazy. Largely, it's a zero sum game. Maybe people will buy DVDs for less, because they are less they will buy more of them, but they're not going to say, "I'm going to have two refrigerators because now I can buy one on the Internet as well and get it a bit cheaper. I'll have two TVs in the main room and I'll do all these wonderful things." To a certain extent, you will take the Darwinian option and you will cut down retailers and, as I said, you can view that as a good thing, as this part of the natural process of life and evolution of economics, that's fine, but it's not these rapacious retailers gouging the public with enormous profits. I wish we could - no, I'm not sure I wish we could.

Another of the things you get is the unhelpful major retail shop staff members and the wonderfully helpful Internet providers. I've seen that quite a few times, and I'm sure that's true. I can show you very unhelpful Internet people and very helpful retail people. What does that prove? That there's a lot of variability in standards of service.

"Australia is more expensive than other countries." Well, I've provided examples of TVs that are much the same price in America on Amazon as you can get in Australia. Okay, there might be a 5 per cent difference. We might be 5 per cent cheaper than the UK in some other examples I've picked. So there's a little bit of variability but you'll find this on a month-to-month basis in Australia anyway. The price are not so different on those major purchases. They can't be. It's a very competitive industry. We're competing very strongly. Let's not forget the voltages and other standards are different to Australia. We've got a lot of factors that we have to do here. Now, you can view those - they're reasonable, they're safety, I've got no problems with them - but we have to recognise they do raise costs.

I worked out that in LCDs and plasmas, they cost overall less in Australia as compared to Europe and sometimes lower than the USA. I put that to a couple of newspaper people and they weren't in the least interested because that's not an exciting story. The fact that they're half-price there, that's a good story; like that Herald Sun article, you would get a good article out of that. Then there was the Green Guide, KPMG said $400 for a 40-inch plasma in the USA and $1000 in Australia. I got on the Internet and within a few minutes I could find it well under a thousand dollars Australian but I couldn't find the $400 one in the USA. So I rang the Green Guide; it was one of those things that just disappeared into the ether. No-one ever found out about this one. So I've got a feeling that you could say anything, as long as it's "low price there, high price here" and someone will put it in the paper and not check it.

The other one that comes up quite regularly: importers in Australia pay the same price as importers overseas. My reply was if I couldn't get a better price buying 15 times as many, I should be given the old age pension and stuck in a home. This has also been said by some politicians who seem to again need to go to economics 101 - I'll leave that point. I think it's been covered enough.

"It's too expensive to collect GST and custom duties for online purchases under a thousand dollars." Okay, I'll give you my free one, of cutting these ones very dramatically. You put on the web site that there will spot checks of purchases and anything that has been undervalued will lose the products, get a huge fine and have all his goods looked at from then. I think you would get a very big cut. I have a personal example that I know directly because I was involved in it: a pair of speakers purchased overseas, small speakers, value $10,000. He valued them at $800. They're little things, 10 kilo. Who cares? In they came. GST lost, $1500. How many are there like that? I don't believe there has been a detailed real search of this type of product.

I've got this which I sent in my submission, "All receivers will be $A1000 for custom purposes," so no duties and taxes will be charged on any of these units. It's on the Internet. I can find you more of them. Again, I don't know what percentage of units are coming on this basis but the fact that they're doing it, it's pretty obvious - no-one checks. Years ago - it would be decades ago now - I can remember customs people ringing me, "Mr Encel, how much is XYZ worth?" I'd say, "They're worth about $2000." "I've got the guy. Thanks, Mr Encel." That doesn't happen any more. These goods just flow in. If someone can describe to me what research there's been - if the Customs Department has done some sort of analysis - I wonder about that analysis in the same way as I wonder about the analysis about the GST costing so much to lower the threshold.

I look at the other countries and they've got their own situation. The UK seems to have it. How do they manage? They've got the same sort of computers. Why do they manage to do it and we can't? I think part of the thing is - and I'm not suggesting you do it on everything - if you raised it to $400 or you could it do on a sliding scale, as most purchases are below $100, according to what I've read, then it won't affect anything there. Then you'll get the other situation and more and more people will be a bit wary, especially if they know the goods might be spot checked. Spot checking I think would be a big disincentive to people falsifying and doing this sort of thing. I'm sure no-one has contacted these people and said, "You naughty boys, you're doing something that's illegal in Australia."

MR WEICKHARDT: Australian Customs would have you believe that they regularly look at those sort of web sites and they regularly make contact with those people and they put those web sites on particular watch when they're imported. I can't vouch for that, but that's what they would say.

MR ENCEL (ID): They would say that, but then my question would be: why, several months later when I looked it up again, they were still saying the same thing? Maybe this is the one that fell through the cracks.

MR WEICKHARDT: I don't know. But certainly when you see evidence of that, I'd report it to customs.

MR ENCEL (ID): I have to say whenever I've seen anything like that, the lack of interest and the tortuous process you have to go through to give it to anyone is a real disincentive. We seem to be able to have a quick way of reporting terrorists but when it comes to these sort of things, we don't have some nice avenue that we can say, "Hey, these guys are doing such-and-such."

MS SYLVAN: Can I just stop on that for a moment, the difficulty of reporting that to customs. Is that not knowing who to go to, where to make a complaint, inaccessibility for easy reporting on their web site?

MR ENCEL (ID): Exactly, yes.

MS SYLVAN: You're saying it's not made easy for a person to bring this to their attention.

MR ENCEL (ID): I'd say it's made very difficult; it's not made easy. There's no provision. I've rung, and you get through to a switchboard and the person doesn't seem very interested in what you have to say and just disappears. Okay, I'm a fairly persistent, paranoid sort of person but after a while you just give up. You think, "Hey, I can't - - -"

MS SYLVAN: We'll have a look at their processes

MR ENCEL (ID): When I've seen that one about the economics of - I'd like to see how those economics were worked out. I mean, there was 24 million - these nice round figures sound terrific but was that based on collecting on everything, was it based on a $100 threshold? Was it 200? Was it based on warnings that, "We'll hang, draw and quarter you if you put in something that's a false price"? What's it based on?

The other question is, apart from that, I think you would find it would slow down a lot of that Internet purchasing, at least in the price levels I'm talking about. You get less of it, so you get less parcels. So there are these countervailing factors, and then you can say, "What about the extra GST you've collected in Australia?" So I'd like to know that model in more detail, rather than just that blanket statement, "It's too expensive."

MS SYLVAN: We can refer you to the chapter if you'd like to read it in detail on how we did our analysis on that and how we did the numbers. There's a number of graphs there showing you our assessment, because the figures are not available and precise, where we estimated where the goods were on the basis of available information.

MR ENCEL (ID): I'd be interested to see that as sort of obsessive curiosity.

MS SYLVAN: Yes, have a look because there's as much transparency as we can give you in that chapter as to how we did the calculations.

MR WEICKHARDT: And if you've got a better suggestion on how to do them, we'd love to hear it.

MR ENCEL (ID): Various European countries - I mentioned this in my original submission - seem to be able to collect it. I mean, why are they so much smarter?

MR WEICKHARDT: We tried to explain what they have done and we too could do these things, but we can't do them just by clicking fingers; just as if you said, "Well, we should be able to make an amplifier here, go and do it tomorrow," I suspect you would find it would be a bit difficult.

MR ENCEL (ID): Yes, but the difference is it's an electronic thing. When we chose myki, we could have just gone to Singapore and said, "Hey, can we copy you?" or Hong Kong or somewhere, but no, we decided to do it better. But we're just copying a fairly standard sort of procedure. The email comes in - anyway, look, I don't have enough - - -

MR WEICKHARDT: Read the chapter and I think you'll find that it's a bit more complicated than you're suggesting, but we understand the point you're making.

MR ENCEL (ID): This question about people purchasing more on the Internet because of lower prices - and I've written here that there's a zero sum gain involved - this doesn't seem to be recognised. There's some sort of panacea that Australian retailers go more online and somehow retail's problems will be sold. This is actually media, politicians, and there is no solution. There is only really the Darwinian solution, that a lot of retailers will have to disappear, cut down. There's no other way; there's no way we can all win.

MR WEICKHARDT: There are a lot of stakeholders involved. As you say, there's the end consumer, there's the retailers and there's the supply channel, but at the end of the day, as a number of people submitted to us, Australian consumers always have and always will choose to shop where they get a good deal, where they get good service and where they feel they have got value for money, and at the moment, your presentation suggests that maybe everything is fine - these exaggerated costs, these exaggerated examples of lower costs on the Internet or higher costs locally, better service locally, they're all an exaggeration. I take your point that the retail sector is a big and diverse sector and there are lots of examples that you can point to, but overall you have to say people are voting with their feet and the number of people who are buying online or offshore suggests that they feel they are getting better deals at the moment.

MR ENCEL (ID): No, I'm sorry if I've conveyed the point that I think it's all all right here. No, there are some items that you will get much better deals on, books, DVDs, small items, clothing, where there is a large differential, yes, you will get a better deal. I'm talking about our particular area and the deals - and you may get a bit better deal, I'm not even sure, it depends on the particular one - but you won't get these 100 per cents on average. You can always pick the odd item where there's a huge price here and a low price over there but on average, Australian retailers don't make such a huge profit. We've been through that.

People often will go overseas to save 10 to 20 per cent. So when you're talking about an item where you've provided good service - like the example you mentioned, about two hours, and my $10,000 example, where someone went out to the man's house with the speakers and demonstrated how wonderful they sounded - so we provided fantastic service and he still got it on the no GST basis, no duty. I suppose that was his choice. We've put on our web site that we will not service anything that's not been bought by one of our authorised retailers. We get intelligent people, lawyers - one lawyer in particular - "Why not? I've bought one of the products you handle" - if someone comes to you and says, "Can you give me a legal opinion? I got this cheap lawyer to do it for me and now I want you to do it for nothing" - I said, "We won't service it."

MR WEICKHARDT: Why won't you service it but charge them a hefty price?

MR ENCEL (ID): Because it's a zero sum gain. That person can work out - let's call it a 1 in 10 chance that it needs service. Okay, 1 in 10, 1 in 20, "I'll pay the higher charge," so it's still encouraging them to buy overseas.

MR WEICKHARDT: I would have thought if you make a good margin out of offering the service, that's a fantastic win for you.

MR ENCEL (ID): No, you can't, because you see, we have standard service charges and we can't suddenly say - $90 an hour, let's call it that. We lose money on service. Most firms doing under warranty service don't make money. You've got to keep the spare parts. You've got to do all those things.

MS SYLVAN: I understand the point, but I do think it is important because we've heard this quite a lot and it seems to me if there is a business there in servicing at a cost which is reasonable - in other words, "If you bought it from us, here's one cost; if you bought it from somebody else, here's another cost" - why wouldn't people do that?

MR ENCEL (ID): For that simple reason that on the costs we're charging people who have bought from us, we're losing.

MS SYLVAN: You would lose money on this because they didn't buy from you, so charge them more.

MR ENCEL (ID): But you would still overall lose money in another way because if people come in and they've got a unit with a bashed front - you know, something has been smashed in the front - it's working properly, no insurance, the panel is a bit twisted or bent, but the other one which is a far bigger problem, a lot of the equipment we sell is very complex, so to set up a thing called an Olive, that can take a person a couple of hours, a few hours. If you say to that person, "Okay, instead of a hundred dollars an hour, we're going to charge you $250 an hour," you will get a very negative reaction.

MS SYLVAN: Fair enough.

MR ENCEL (ID): I don't think there's much in it - - -

MR WEICKHARDT: I'd be saying to that person, "Well, you've got a choice.

You either take it back to where you bought it from or I'll service it."

MR ENCEL (ID): I mightn't be a smart one, but I know of no other person who has taken that approach. They have taken that simple approach, "We don't service it," because you're encouraging people to buy overseas, take the risk. So yes, you might get that occasional customer. One of the biggest or probably the biggest disincentive is the fact of no service in Australia. If you eliminate that disincentive - - -

MS SYLVAN: They're more likely to buy from you.

MR ENCEL (ID): Exactly. So you're right, there's a small chance of a larger profit on a small amount of money but there's a big chance of reducing one of the great advantages you've got of buying in Australia. So I'd say it would be a wrong business decision for us to take advantage of that business model.

MR WEICKHARDT: Okay. You're the person running the business and it's certainly one of your decisions, but I would have thought there is an opportunity for somebody, even if they charged 90 per cent of the cost of the original amplifier to service it, it's better than the person - - -

MR ENCEL (ID): When you get on to Whirlpool forums, "These evil people are charging this," we don't want to be on Whirlpool forums saying that we're Satan, and this is really what happens. I've been on a Whirlpool forum in a way I didn't want.

MR WEICKHARDT: Okay.

MS SYLVAN: Presumably though if somebody made that their business model, presuming there's a business there - and I don't know, I'm not in this area - but if somebody made that a business model, servicing bicycles bought overseas or audiovisual equipment or whatever it was, that would be welcomed by the industry?

MR ENCEL (ID): No-one would do it simply because the cost of doing it - it's a theoretical question.

MS SYLVAN: Yes.

MR ENCEL (ID): You see, for that person to have that business model, he'd have to have all the spare parts to cater for the odd instances and the cost of that would be simply uneconomic. I could go into it in more detail but I don't see it as a business model.

MS SYLVAN: That's fine. You run the business, I don't.

MR ENCEL (ID): That's one of the reasons why servicing costs so much because we've got to keep all these parts, as poor Phil does as well, to have them available in that odd instance that the person comes in wanting to be done. So if that person who has a smaller market, he's still got to keep all those parts and we don't make a profit on it anyway, so I don't think that would work. There is a certain punitive tone when there is talk - I've seen it in the media quite often "billionaire retailers" and "huge profits" and I've just said here, "The vast majority of retailers are smaller operations. They stock commonly required products but they can't stock every conceivable product and can't be expected to." So often the person who comes and wants every model that's on every possible web site and they're not imported into Australia because there no demand for them.

There is one about the - and I've seen this often - reason why this has started is the change in exchange rates, the strong Australian dollar. It's a factor but it's not a major factor. The reason is this: let's say you have electronic products and the Australian dollar dropped to .80. Then over a period the price of the goods in Australia would go up, not exactly in line with that, so the relativity between the dollar and our product would stay roughly the same. So if a person with this clothing can get it for 50 per cent off, they will still get it roughly at 50 per cent off. It might be something to do with it in the perception sense but in the reality sense it's not a factor.

MR WEICKHARDT: I completely agree with you.

MR ENCEL (ID): Thank you. The last bit I stated the understating cost examples. We know what would happen to driving speeds if we didn't have policemen and speed cameras. Not policing thresholds encourages people to be liars. I think that point, that strong rigorous policy of spot-checking and hauling the person into court, if that was done a couple of times those undervaluing things would drop off extremely sharply. They are all my points. Thank you very much for listening to me and I'm sorry I took so long to cover several things.

MR WEICKHARDT: No, there are a lot of complex issues there and appreciate your input. It's useful to get that perspective. I'm particularly interested in the comments you made that you don't feel disadvantaged in terms of buying from your providers compared to people in the US or elsewhere and that you can get discounts based on the volumes that you're buying for. Some people have put it to us that they can't even buy multiple items for the same price as people can buy an individual item for online and that strikes me as being a bit bizarre.

MR ENCEL (ID): It's a bit more complex than that. Let's say you have an amplifier and we can buy - maybe someone buying a lot more will get it for 10 per cent less, take that as an example, but it won't be 50 per cent less or 70 per cent less. On the other hand, when you're seeing someone - let's say this particular letter with some particular part. Now for that person to bring in this individual bicycle part, postage and all that will cost them a lot of money so the person would be cheaper. There would be a bit cost disadvantage. But when it comes to what I call general merchandise, the 15 per cent - you could make it 20, it depends how much you're buying. In some products we actually buy more than the USA. At one stage we were selling a particular product at a higher percentage per capita than they sold where they were made in Germany. So you can pick your examples.

So, yes, we're disadvantaged on the price basis - I can call it that 10, 15 per cent basis - but it's not enough to make a dramatic change in our business model. But there are certainly examples of that. The DVD ones - which is not my industry - that would be an example because you don't have to have a shop. By the way, in America, you go into a normal shop to buy a DVD, you don't pay the online price. You pay a much higher price, just as people do in Australia. You go to a hotel to have a drink, you don't pay the same price as when you buy a bottle and drink it at home. My partner still wants to go to dinner rather than cook.

MR WEICKHARDT: It's interesting those price differentials exist throughout our society and a lot of them aren't driven by tax differences but people get very obsessed by tax differences and I understand the reasons why and issues of equity and fairness come into play. But, as you say, there are many examples where people will pay for buying a drink out of a minibar in a hotel and pay about five times what they'd pay if they walked down the street.

MR ENCEL (ID): I'm a teetotaller, my youngest son is at university and I said, "Kim, all you need to do, instead of going to the hotel with your friends, you buy these bottles, you sit down at home in front of this beautiful Metz TV with a large picture, very good picture quality, and you'll save so much money." "Dad, you don't understand," and I have to agree with him.

MR WEICKHARDT: Thank you very much indeed for coming in. We appreciate your input and thank you for your submission.

MR ENCEL (ID): Thank you.

MR WEICKHARDT: That completes the hearings here today. For the record, is there anyone else who wishes to appear before the commission today? In that case, I adjourn the hearings and we recommence in Sydney next Monday. Thank you.

AT 12.42 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 12 SEPTEMBER 2011