



The voice of Australia's leading retailers

May 2011

Economic Structure and Performance of the Australian Retail Industry



**Australian National
Retailers Association**

The voice of Australia's leading retailers

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The voice of Australia's leading retailers

About ANRA

The Australian National Retailers' Association ("ANRA") was established in 2006 to represent the interests of Australia's leading national retailers.

Members of ANRA are:

Best & Less	Harvey Norman
Bunnings	Just Group Portmans Peter Alexander Dotti Smiggle Just Jeans Jay Jays
Coles	Luxottica OPSM Laubman & Pank Budget Eyewear Bright Eyes Sunglass Hut
Costco	RedGroup Retail Angus & Robertson Borders
David Jones	Reece Plumbing
Dymocks	Super Retail Group Supercheap Auto Rays Outdoors BCF Boating Camping Fishing Goldcross Cycles
Franklins	Woolworths Supermarkets Big W Dick Smith

This submission also represents the views of non-ANRA member, Myer.

The turnover of these major Australian companies exceeds \$100 billion of the \$240 billion turnover across the retail industry, representing 7.7% of Gross Domestic Product.

The members of ANRA employ over 450,000 Australians – almost 40 % of the retail workforce and over 4% of the Australian workforce. Approximately 100,000 of these employees are located in regional and rural Australia. Over 750,000 Australians hold shares in members of ANRA.

Members lead the Australian retail industry across all types of retail, goods and services. The spectrum of their businesses, their scale and their contribution to all Australian communities means that the development of robust policies to strengthen this sector and protect the interests of retail businesses and consumers is critical.

A key objective for ANRA and we believe for the Productivity Commission's review, is to ensure that governments and the community understand the vast contribution the retail industry makes to the national economy. ANRA develops and endorses public policies which will enhance the capacity of the sector to meet consumer needs.

ANRA recognises that retailers rely on all Australians, and must competitively deliver to consumer needs. The industry and members of ANRA in particular, are leading employers, contribute to the community and regional development, and strongly interrelate with other Australian industries, not the least of which is the agricultural industry. ANRA's food and grocery retailers overwhelmingly supply Australian produce.

The Australian National Retailers Association (ANRA) appreciates the opportunity to make a submission to the Productivity Commission's inquiry into the economic structure and performance of the Australian retail industry.

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1. Executive Summary

- 1.1. This inquiry is an important opportunity for the retail sector to engage in some self examination and both review the current health of the sector and, more importantly, look to the future potential for one of Australia's most important industries.
- 1.2. The past two years have undoubtedly been challenging ones for the sector, which has performed well below its long-term annual sales growth pace of around 6%. The poor performance of retail in general is discussed in detail in Section 2 of this paper, including a review of the cyclical factors that are crimping consumer spending currently.
- 1.3. The sector is also facing a number of structural changes.
- 1.4. New international entrants are entering the market and increasing already strong competitive pressures.
- 1.5. Consumer demands are also constantly changing, with consumers looking for increasingly convenient shopping options. This has manifested itself in the emergence of new store formats, such as large-scale stores that stock a broad range of items or increasing self-serve opportunities to help customers get out of the store as quickly as possible.
- 1.6. Technology is also proving to be a significant driver of structural change in the sector.
- 1.7. Historically consumers have faced many barriers and costs if they wanted to compare products and search out the best deal. They could only buy from retailers in the surrounding geographic area and had to spend the time visiting each one to find out about products and get the best price. But technology is changing all that.
- 1.8. Retail is now a global market of well connected consumers who can research, compare and buy almost any product they want from anywhere in the world without leaving their lounge room. The role of technology and the structural changes it is driving are discussed in detail in Section 3 of this paper.
- 1.9. With the right policy settings, the emergence of internet technology presents an opportunity for Australian retailers to access literally billions of consumers that they have never been able to reach before. This vast increase in potential market size means that a strong, internationally competitive Australian retail sector may well be able to break through that 6% long-term sales growth trend and achieve stronger sales growth, leveraged off the sheer size of the international marketplace.
- 1.10. Alternatively, the wrong policy settings could result in the globalisation of the retail sector seriously threatening the viability of Australian retailers and the jobs of many Australians.
- 1.11. The ultimate direction the sector takes depends on retailers making the right strategic decisions. But equally important is the role that governments need to play to implement the right policy settings. These settings need to reflect international best practice trends to ensure Australian retailers can compete on a 'level playing field'.

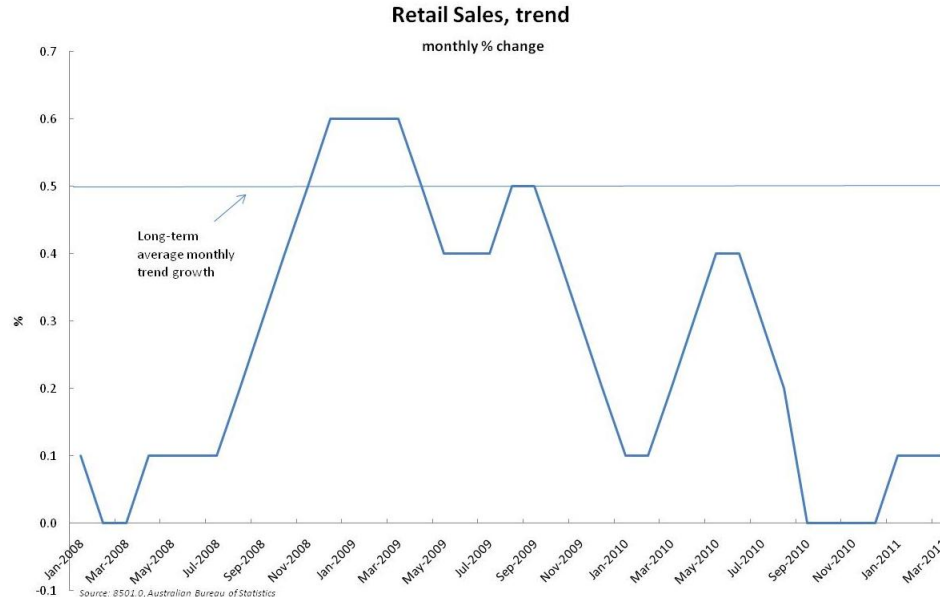
- 1.12. One of the criticisms of Australian retailers in recent months has been that they charge customers considerably more than their international counterparts for the same product. This view was particularly prevalent during the 2010 Christmas period when the spotlight was shone on online purchases made via offshore sites.
- 1.13. Much of the debate centred on the issue of the low value import threshold for charging GST and other applicable duties on imports. ANRA believes this issue needs examining, however, it is clear that the 'level playing field' challenge for Australian retailers is much broader than just the GST and applicable import duties.
- 1.14. Section 4 of this submission details the numerous regulations, taxes and compliance costs that Australian retailers face – many of which are not faced by international counterparts.
- 1.15. Importantly, Section 4 includes numerous recommendations on how to remove these competitive barriers to ensure Australian retail remains a major contributor to the Australian economy.
- 1.16. These recommendations are summarised as:
 1. **The Australian Government creates a Minister for Retail with the appropriate departmental support to ensure this key sector has a voice in Cabinet. In addition, the Government should establish an Advisory Retail Panel similar to the Mining and Resource Panel already in place to provide timely feedback and a sounding board for Government on the issues affecting this critical group of employers.**
 2. **Retailers should be allowed to open any time they choose except for Christmas Day, Good Friday and the morning of ANZAC Day (unless an exemption has been granted to trade on these days). Accepting that there is a COAG process in place, the issue of shop trading hours reform must be accelerated and an active incentivised program of productivity payments provided to states taking action within a three year window.**
 3. **Retailers should be able to prepare stores for opening during restricted trading days, reversing the current definition of a 'closed shop' in NSW.**
 4. **The low value import threshold should be reduced to \$100 within the next Budget cycle, pending a full investigation into the cost of collecting GST above this point based on the experience of comparable countries.**
 5. **The Australian Government should immediately remove Customs Duty from all consumer goods imported into Australia, except clothing and textiles and passenger vehicles.**
 6. **The Customs Duty on clothing and textiles should be reduced to 5% as of January 2012 (not January 2015 as planned) and to 0% by 2015.**
 7. **ANRA recommends the Productivity Commission undertakes a review of the taxes facing retailers and looks at ways to reduce the number of taxes paid and the size of taxes paid. This could involve harmonisation and consolidation opportunities and should be part of the consideration by Government at the Tax Summit in 2011.**

8. **The Australian Government should immediately remove parallel importing restrictions.**
 9. **The Australian Government should put in place measures to assist the Australian retail industry regarding implementation of direct sourcing arrangements and/or Free Trade Agreements.**
 10. **The Productivity Commission should use this Inquiry, and its inquiry into Performance Benchmarking of Australian Regulation: Planning to drive change in Australia's planning system to ensure Australian retailers can deliver the types of stores consumers want in the locations they want and need them.**
 11. **The Australian Government should not re-introduce plans to change s.50 of the Australian Competition and Consumer Act.**
 12. **The ACT Government should immediately undertake a comprehensive review of the ACT Supermarket Competition Policy to determine whether it has delivered lower prices and enhanced competition for the residents of the ACT.**
 13. **The Australian Government should take steps to ensure that all goods being imported into Australia, including direct purchases by households, meet all Australian safety standards and labelling requirements.**
 14. **There needs to be restraint in minimum award wage increases while the retail sector is experiencing soft growth.**
 15. **The Australian Government should commit to playing its role in training the retail workforce of the future via continuing financial support for retail-based apprenticeships and traineeships.**
 16. **The National Land Freight Strategy should address the issues of urban congestion, network reliability and multiple regulatory regimes that are having a negative impact on retailing logistics chains**
 17. **The Australian Government should place increased focus on minimising the growth of 'green tape' facing Australian retailers.**
 18. **The Australian Government should release the details of its carbon tax as soon as possible and well in advance of the legislation and start date.**
- 1.17. This Productivity Commission Inquiry is one of the most important policy developments in the retail sector in decades. It presents an opportunity to improve understanding amongst decision-makers and the general community about the sector. It is hoped that this increased understanding will, in turn, assist governments to make better decisions regarding the regulatory framework that governs the industry. It is also an opportunity for retailers to put forward constructive and practical suggestions to improve their sector.
- 1.18. As one of Australia's largest sectors and biggest employers, it is critical that the findings of this inquiry put the sector firmly on the path to prosperity and deliver the opportunity for retailers to maximise their potential into the future.

2. Current State of Retail Sector

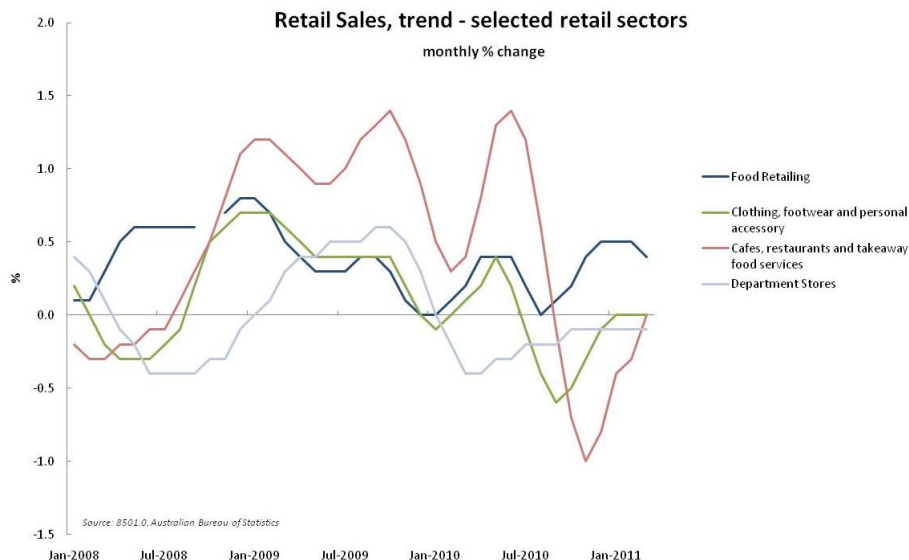
- 2.1. The Productivity Commission's Issues Paper for this inquiry covers many of the current trends in retailing. This section of ANRA's submission aims to add to this base of information with additional information from various sources.
- 2.2. Overall, the Australian economy continues to recover in the post-GFC period. GDP (trend, real) grew 2.7% in the year to December 2010, a similar rate to the 2.9% achieved in the year to December 2009.
- 2.3. However, these headline numbers fail to reflect the continuation of the two-speed economy that emerged last year. The past 18 months have been some of the toughest conditions many in the retail sector have faced.
- 2.4. The national accounts by industry measure [GDP(P)] shows the retail sector grew only 1.2% in 2010 (trend, real). Compared to an average annual growth rate of 3.8% (trend, real) over the past decade.
- 2.5. Retail sales (trend) grew only 2.0% in the year to March 2011, compared to long-term average annual growth of around 6%. On a month-on-month basis sales remain close to flat, well-below the long-term trend of 0.5% (Fig 1).

Fig.1 Retail sales m/m % growth, trend



- 2.6. Within these headline retail numbers there has been a varying performance across the specific retail sectors. Sectors that are dependent on non-discretionary spending, such as food retailing, have in general performed better than those which are more reliant on discretionary spending, such as clothing. (Fig 2).

Fig.2 Retail sales m/m % growth, trend – by selected retail sectors



- 2.7. Fig. 2 shows that growth in food retailing, while dipping in March, has been stronger and closer to the long-term monthly trend of around 0.5% than other retail sectors. Clothing, footwear and personal accessory retailers have recovered to only flat trend growth in the past three months after months of falling sales. The experience of department stores is even weaker, with these retailers recording flat or negative monthly results since January 2010.
- 2.8. Much of the weakness in discretionary spending has also been reflected in the Westpac-Melbourne Institute index of consumer sentiment. The April 2011 reading of 103.9 is less than four percentage points above the 100 mark (where pessimists begin to outnumber optimists). This is its lowest level since June 2010, which was preceded by three consecutive monthly increases in the official cash rate by the Reserve Bank of Australia over March, April and May 2010.
- 2.9. In an effort to encourage a recovery in retail spending many retailers have offered significant discounts to entice customers to return. This discounting practice began in late 2009 and early 2010 and continues currently. This has created an expectation amongst consumers that goods are almost constantly on sale and has bred a reluctance to spend without the discount incentive.
- 2.10. An ANRA survey of 1000 consumers in February 2011 found 48% of consumers would only be tempted to buy discretionary goods if they are on sale. This prolonged drive towards discounting is having a negative impact on retail margins as well as sales and consumer expectations.
- 2.11. The discounting phenomenon is being reflected in the retail implicit price deflator – an indicator of the movement in retail prices. Overall, the implicit price deflator rose 1.6% over the year to March quarter – around half the increase in the consumer price index over the same period. Moreover, the increase was driven by increases in food (up 4.2%) and food services (up 2.6%) over the 12 months to March. In contrast, prices for household goods (down 3.1%), clothing, footwear and personal accessories (down 0.8%) and department stores (down 0.3%) all fell.

- 2.12. Some of these price falls are likely to be due to the rise in the Australian dollar. However, ANRA surveys suggest that consumers demand for discounting is also playing a role in recent price falls.
- 2.13. This combination of soft sales and falling prices is crimping profitability in the retail sector. Gross operating profits for corporations in the retail sector declined 0.4% in the year to December – the third consecutive quarter to record declining profits compared to a year earlier.
- 2.14. The Productivity Commission's Issues paper for this inquiry notes that there is differing evidence around other profitability measures for retailers¹. The profit margin on sales revenue tends to be lower than most other industries. On the other hand, the return on shareholder's funds is amongst the highest over the 5 years to 2009/10. However, this latter measure covers an extended period and masks the significant downturn experienced by retailers in the past 18 months.
- 2.15. The most recent profit reporting season was also mixed for listed retailers. Once again, those retailers that were more highly dependent on discretionary spending appeared to report slower profit growth than those non-discretionary retailers such as supermarkets.
- 2.16. The employment situation in retail has also been mixed in recent years. ABS trend data shows the retail sector lost 51,300 jobs between May 2008 and February 2010. In the past year employment in the sector has rebounded by 52,400 jobs.²
- 2.17. Breaking this employment data down into retail segments again highlights the differences between discretionary and non-discretionary retailers. Almost two-thirds of the employment gains in the year to February 2011 were in food and fuel retailing.
- 2.18. The retail sector is a major employer in Australia, with ANRA members accounting for almost 40% of retail employment and over 4% of total jobs in Australia. ANRA members also have a strong commitment to regional Australia, employing over 100,000 people in non-metropolitan areas.
- 2.19. The employment role of retail is not just about the number of jobs – but also the type of jobs. Retailers offer flexible working arrangements for many of its staff, with a large casual and part-time workforce that are attracted to the sector by its positive work-life balance opportunities. ANRA members have also recently focused on providing greater employment opportunities for disadvantaged groups in the community including Indigenous Australians and those living with a disability.
- 2.20. Retailers also invest heavily in training their workforces. For example, Australia's leading supermarkets are amongst the biggest hirers of apprentices in Australia. Many large retailers also run in-house training facilities and have links with major education institutions so they can help customer-based staff move into management roles in the business.
- 2.21. This strong commitment to continual skilling of their workforces has contributed to the productivity performance of Australian retailers in recent years (as discussed in the Productivity Commission's Issues paper).

¹ Productivity Commission (2011)

² ABS (2011) *Labour Force, Detailed Quarterly* 6291.0

- 2.22. Another driver of productivity growth is the strong competition that exists across the retail sector. Australia's small population means retailers are constantly trying to grow and develop their business in what, by global standards, is a small market. This competition means retailers are constantly searching for ways to lift efficiencies so they can offer lower prices to their customers.
- 2.23. The key question facing the retail sector currently is why conditions remain depressed. Influences on industry sectors can usually be attributed to either cyclical or structural factors. Currently, the cyclical influences of a falling unemployment rate and rising wages growth suggest the sector should be performing well. But these positive influences are being offset by some negative cyclical impacts. In addition, there are also increasingly challenging structural factors emerging that retailers and Government must respond to if the sector is to compete successfully and maximise the opportunities presented by the new global retail market.

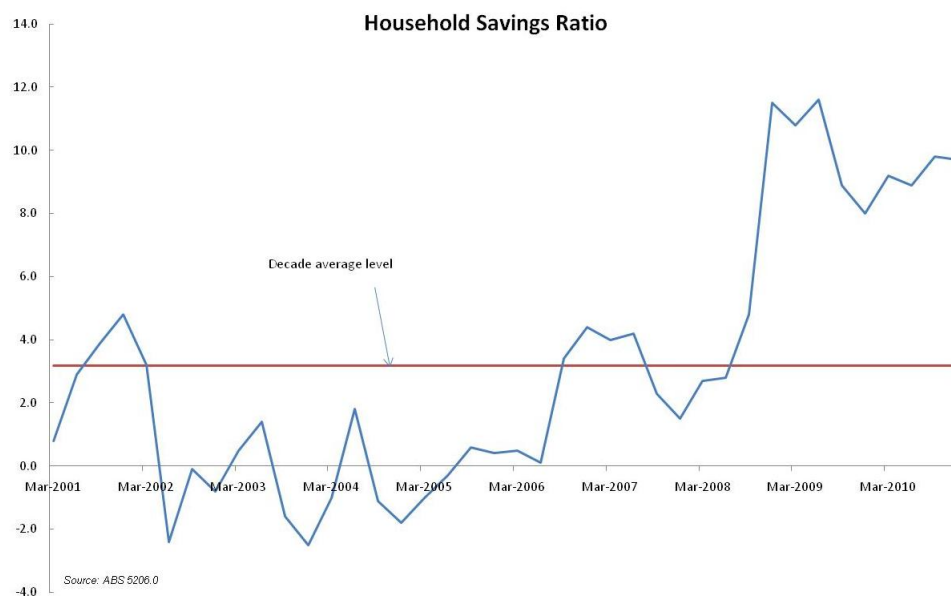
a. Cyclical Influences

- 2.24. Australia is currently experiencing a declining unemployment rate and rising wages growth. These factors would normally point to a solidly performing retail sector, including discretionary spending, but that is not the current experience.
- 2.25. In addition to these positive influences, there are a number of major cyclical factors working against retail sector growth both currently and into the future.
- 2.26. Firstly, mortgage interest rates rose during 2010 and are expected to rise further in the second half of 2011. This includes a number of instances where banks raised interest rates by more than the Reserve Bank of Australia lifted the official cash rate. In particular, the rate rise of November 2010 appears to have severely crimped Christmas spending. In an ANRA survey of 1008 consumers in December 2010, 1 in 3 reported that the November rate rise had caused them to reduce their Christmas spending plans.
- 2.27. The resulting weakness in house prices – down around two percent over the March quarter and flat for the year on the basis of Australian Bureau of Statistics and RP Data-Rismark surveys – has also eroded scope for equity withdrawal, which was a significant driver of consumption growth in the lead up to the global financial crisis.³
- 2.28. In addition, the Flood Levy for 2011/12 is likely to temporarily crimp spending in the second half of 2011, especially discretionary spending. ANRA understands the importance of this levy to pay for the rebuilding of flood affected areas. However, it is likely to act as a cyclical negative influence on the retail sector.
- 2.29. Thirdly, consumers are currently facing a period of rising household bills, especially energy and water costs. An ANRA survey of 1008 consumers in September 2010 identified rising household bills as the main reason (34%) for cutting retail spending in the previous 6 months. In addition, ANRA's survey of 1005 consumers in February 2011 found that more households (38%) said that utility costs are the main determinant, outside of changes in income, of their discretionary spending intentions for 2011.

³ ANRA acknowledges that equity withdrawal is not a sustainable driver of consumption growth, but was a factor in supporting retailers' operating environment leading up to the Global Financial Crisis. Data is indirectly sourced from the Reserve Bank of Australia (2011).

- 2.30. The rise in household utility bills is currently assumed to be a cyclical influence, due to the need for catch-up investment in the sector. However, the impact of an introduction of the proposed carbon tax and the move to an Emissions Trading Scheme will be a major structural change within the Australian economy which could see rising household bills move to the structural change ledger for the retail sector.
- 2.31. The Global Financial Crisis (GFC) had minimal direct impacts on Australian households, in part due to the stimulus spending injected into the economy in 2009/2010. Nevertheless, it has had a lasting impact on household's attitude to debt levels. The household savings rate has risen significantly (see Fig. 3) in the past two years. It is now around 10% - compared to an average of 3% for the past decade. This trend highlights a renewed commitment to saving by households, which is having a negative impact on retailers.

Fig. 3 Household Savings Rate



- 2.32. Currently, the rise in the household savings is anticipated to be a temporary or cyclical phenomenon, as a result of increased household concern about debt in the immediate aftermath of the GFC. However, it may prove to be a more permanent, structural adjustment that has longer lasting impacts on the retail sector.
- 2.33. Finally, confidence and spending has also received a blow from the forces of nature so far this year. The unrelenting barrage of news about floods, tsunamis, earthquakes and violent political uprisings in the Middle East have most likely made Australian households (and international tourists when considered in combination with the high Australian dollar) more cautious than they otherwise would be – especially as many of these events have happened in our region or will have a direct impact locally via higher world oil prices.

b. Structural Influences

- 2.34. Alongside these cyclical factors, there are also numerous and ongoing structural changes that are currently challenging the Australian retail sector. These include increased competition from international retailers opening stores in Australia, changes in retail store formats and designs and the enthusiastic take-up of technology by Australian consumers, with aggressive overseas retailers targeting online shoppers in Australia.
- 2.35. International retailers are starting to recognise the Australian market as a source of potential income growth and are setting up stores here. This has been particularly prevalent in supermarket retailing with the appearance of new entrants such as Aldi and Costco in recent years. This increased competition is welcomed by existing local retailers but requires them to respond to the added competitive pressures by ensuring they are meeting their customers' needs in terms of both price and service.
- 2.36. There have also been significant changes in store formats in recent years. This includes increased use of self-service in retail store and use of larger one-stop store formats that are based around having everything needed in one place.
- 2.37. There has also been the emergence of 'own brand' products and formats that incorporate stores-within-stores so customers can access specialised services in a central, convenient location.
- 2.38. Consumers are increasingly embracing new technology as part of their retailing experience and the retail sector is responding to maximise the opportunities this technology drive creates.
- 2.39. Traditionally retail has been regarded as a domestic industry that has been largely shielded from the impacts of globalisation. But technology has changed that; retail has gone global. Over recent decades, globalisation has driven major structural changes in other Australian industries – in recent years this has started to emerge in retail.
- 2.40. Consumers are making increased use of technology to shop. This includes activities throughout the entire retail experience from finding out about new products, price and quality comparisons and the final purchase.
- 2.41. On the upside, these developments also present retailers with new opportunities provided the right regulatory framework is in place.
- 2.42. The role of new technology in the retail sector is discussed in more detail in the next section.

3. Retail and Technology

Historical context

- 3.1. Retail has never been a stagnant industry and Australian consumers have enjoyed continually improving service as retailers respond to their changing needs. This has manifested itself in increasingly convenient shopping opportunities with the emergence of retailers that offer new store formats and multi-channel ways of making purchases – including in-store and internet shopping.
- 3.2. For example, stores such as JB Hi-Fi, Bunnings, SuperCheap Auto, BCF and Masters are all examples of new 'bricks and mortar' store formats that have emerged in recent years as retailers respond to consumer demands for convenient and good value shopping. At the same time new purely online stores have emerged. There has also been the development of aggregator or search sites that enable customers to compare products across different retailers. There has also been the emergence of multichannel retailing with retailers developing online stores to complement their 'bricks and mortar' outlets.
- 3.3. More recently, this consumer-driven trend towards more convenient shopping has combined with the increasing use of technology to lift interest amongst Australian consumers in online shopping.
- 3.4. According to a report by JP Morgan⁴ internet shopping now accounts for 9.8% of retail spending in the UK and 8.6% of retail spending in the US.
- 3.5. But Australian consumers have been slow to take-up online shopping. Indeed, many early providers of online shopping websites in Australia found this was not what consumers wanted and it failed to deliver the expected returns.
- 3.6. Australian consumers already had access to convenient shopping opportunities and there was no history in Australia of buying without seeing a product – unlike the US and UK where catalogue shopping has been commonplace for decades. These factors led to only minimal consumer demand for online shopping in the early years of this century. The case study below highlights one leading Australian retailer's early experience with the online selling channel.

Case Study: DAVID JONES

Despite current perceptions that Australian retailers have lagged behind their overseas peers, David Jones was in fact an early adopter of technology in its retail business.

The Company launched its first online business on 17 October 2000.

This followed the acquisition (for an undisclosed sum) in June 2000 of the assets of The Spot online site (which included Beauty Spot, ToySpot, HealthSpot and leased warehouse operations in Artarmon NSW).

⁴ JP Morgan (2010)

The acquisition involved David Jones purchasing the technology, infrastructure, business processes, call centre, fulfilment capability and a number of key individuals who were intended to assist David Jones in fast tracking its e-commerce presence.

David Jones' online business operated for 3 years after which time it was evident that the business was incurring large losses.

The reason for the losses was that the costs of starting an online business were relatively fixed regardless of where you started the business geographically however the market in Australia was too small to generate a return on investment. Unlike the US and UK which have a large population and hence a larger potential customer base the Australian market was too small and not as sophisticated from a technology viewpoint as offshore markets.

As a result on 3 June 2003 David Jones announced to the market that it was going to cease its online sale of general merchandise (other than Christmas hampers) in mid June 2003.

This decision was based on the fact that future capital investment in the online business would not meet the company's investment criteria.

The total one-off costs associated with winding down the David Jones online site in 2003, was \$6.4 million before tax. The cumulative losses over the operating period of David Jones' initial foray into online were circa \$30 million.

After 7 years with only a Hamper presence available online from October to December each year, David Jones launched a new year-round online site on 4 November 2010.

The site was initially introduced with 1500 items of stock-keeping units (SKUs). Since that date further SKUs have been added and a tender process is currently being undertaken to update the IT system from which the online site operates. The new IT system will significantly improve the functionality of the site and enable a much broader selection of merchandise to be featured online.

- 3.7. More recently, however, Australian consumers have started to become more interested in online shopping options. This has been driven by four key factors.
- 3.8. Firstly, the A\$ has risen strongly in the past year and is now well above parity with the US\$. This means Australian consumers can instantly enjoy exchange rate benefits by buying at overseas online stores, rather than have to wait for the exchange rate benefits to flow-through the supply chain to prices in local retail stores.
- 3.9. Secondly, consumers have become more comfortable and trusting of internet security and become more confident that their details are secure.
- 3.10. In addition, the logistics and postal systems have improved in recent years. This includes a move away from pallet based delivery towards more efficient individual delivery capabilities.
- 3.11. Finally, the explosion in the use of mobile internet technology, including iPhones and Android-based phones, increases the convenience of online shopping. It can now be done anywhere, rather than only at a fixed computer.

- 3.12. The pace of take-up of online retailing is also likely to increase with the roll-out of the NBN. Regional consumers, in particular, are likely to increasingly be able to access online shopping opportunities that are not currently as readily accessible in non-metropolitan areas.
- 3.13. There is also the suggestion that higher fuel prices are contributing to peoples' decision to shop online. Experience in the US shows a correlation between higher petrol prices and the desire to shop online. Research there has tracked the increase in 'clicks' on online advertisements to increases in the price of petrol.⁵
- 3.14. These changes have led Australian retailers to again start engaging in online shopping channels, with most major Australian retailers now having a web-site that facilitates at least some purchases.

Size of the internet retail channel

- 3.15. The fast growing and disaggregated nature of the online marketplace means it is hard to get an accurate measure of the value of purchases currently being done on-line by Australians.
- 3.16. Access Economics⁶ estimates that:
"Domestic online retail sales for all sectors of the economy in 2009 are estimated to have totalled between \$19-\$24 billion, or around 3% of the total. It is likely that at least 20% of this amount – and as much as 50% - was spent via international retailers."
- 3.17. Frost and Sullivan⁷ put the estimate closer to around \$12 billion annually – with about 40% of this done via overseas websites (or \$4.8 billion). This same report predicts that online spending will grow to \$17.7 billion by 2014. Assuming the 40% ratio remains in place for overseas shopping, this suggests that by 2014 online spending at overseas sites will account for \$6.8 billion.
- 3.18. An ANRA survey, conducted in December 2010, found that for Christmas 2010 Australian consumers intended to spend up to \$1.4 billion on Christmas gifts at overseas sites.
- 3.19. The figures for overseas online shopping suggest that with annual overseas online spending at around \$4.8 billion, the Federal Government loses around \$480 million in GST revenues each year because of the low value threshold.
- 3.20. The size of the GST loss is only likely to rise in the coming years. If the Frost and Sullivan forecasts, discussed above, eventuate then the GST revenue loss could rise to \$680 million by 2014.
- 3.21. If Australia reaches online spending rates currently seen in the US and UK, with around 9% of sales moving to online, then online sales could rise to as high as \$21.8 billion. Assuming 40% of these continue to be to offshore sites, this would imply international sales of around \$8.7 billion in the next few years. This would lift the GST loss to around \$870 million each year.

⁵ Berk (2011)

⁶ Access Economics (2010)

⁷ Frost and Sullivan (2010)

- 3.22. Research undertaken by JP Morgan⁸ highlights the fast growing enthusiasm with which Australian consumers are now embracing online shopping, after a relatively slow start. The JP Morgan report featured data collected from a US company called FiftyOne, which facilitates major US retailers extending their online sales internationally. FiftyOne data shows that Australian and New Zealand consumers make up 18% of what they call global 'power shoppers'. These are shoppers that spend more than others, place bigger orders and buy more frequently from FiftyOne clients. 'Power shoppers' in Australia and New Zealand spent around US\$1,200 in CY2010 at FiftyOne related retailers, compared to regular shoppers at FiftyOne who spent around US\$300.
- 3.23. This same JP Morgan report notes that UK retailers are also reporting solid returns from Australian consumers. UK online fashion retailer ASOS has said it is now the number one online fashion retailer in Australia and that Australia is its third largest market. This is attracting the attention of other UK retailers, such as John Lewis and Marks and Spencers, which have recently launched internet stores into the Australian marketplace.
- 3.24. Online shopping is also not uniform across retailing, with some products more popular than others. In particular, discretionary spending items such as books, music, clothing, cosmetics and small electronics are the most popular goods bought online.
- 3.25. This means Australian retailers selling these products are the ones facing the most competition from offshore retailers. Already there have been examples of major Australian book-sellers moving into receivership amid strong competition from online sellers.
- 3.26. Our view of the future must be coloured by the figures recently released for US online purchasing during Q1 of 2011 which totalled \$38 billion up 12% from \$33.98 billion for the same period in 2010.⁹ It is not unrealistic to expect similar trend growth in the Australian market.

More than just purchasing

- 3.27. These on-line purchasing figures are important but they only tell part of the story of the role of the internet and new technologies in modern retailing. Online retailing trends cover all aspects of making a purchase, from initial research through to the final purchase.
- 3.28. Research undertaken by IBM¹⁰ showed almost three-quarters of Australian shoppers said they wanted to use technology at some point in their shopping process.
- 3.29. This same IBM research identified a group of people willing to use two or more such technologies to shop (which they called 'instrumented' consumers). In 2010, the proportion of instrumented respondents jumped to 45% in 2010, from 31% in 2009. This characteristic was particularly prevalent amongst younger generations, with 52% of 15-19 year olds using two or more technologies to shop.
- 3.30. The two main channels for this technology are websites and social media.

⁸ JP Morgan (2010)

⁹ Davis (2011)

¹⁰ IBM (2010)

- 3.31. Websites play a key role in the technology revolution hitting retailers. Consumers can now undertake product comparisons either before they leave home or in-store via mobile internet. Once they know which product offers them the features they are looking for they can search for the cheapest price – a search that can encompass any retailer in the world that has a website. Once they have found the best value they can either place an order on-line or go to the store and make the purchase over the counter.
- 3.32. Social media is also playing an increasingly important role in retail. Friends and relatives have always been important sources of information and recommendations for products and services, especially for new items.
- 3.33. This influence has been magnified with the emergence of social media such as Facebook and Twitter. With one click people can inform all their on-line friends about their positive or negative experience with a product or retailer.
- 3.34. These technology links are not a one-way street. Technology allows retailers and consumers to genuinely interact. The IBM¹¹ survey found that a third of the consumers polled – largely Generations Y and Z – said they were likely to follow a retailer on a social network, chiefly to trial new products, gain preferred customer status or suggest changes to products.
- 3.35. The rise of this two-way interaction can be seen via the increase in the number of loyalty programs retailers are offering customers. These programs offer regular customers the opportunity to access special deals and discounts. They also allow retailers to learn more about their customers and the purchases and services they are looking for.
- 3.36. This wave of structural change that is being driven by technology cannot be turned back, and indeed that is not the desire of Australia's major retailers. ANRA understands that technology represents an opportunity for retailers who can embrace these changes. Making purchases at 'bricks and mortar' retail outlets is likely to continue to dominate the shopping experience, at least in the short to medium term. Nevertheless, retailers need to adapt to the increased use of technology and the 'globalisation' of retailing that this technology revolution is driving.
- 3.37. In the UK one of the most critical trends affecting 'bricks and mortar' retailers is the growth of smartphone use for purchasing goods. In the 9 months between June 2010 and March 2011, there has been a 20% growth in smartphone usage for retail and much of this is driven by the spread of products like the Apple iPhone and the iPad.¹² In the US researchers have reported an 800% increase in the last year of shoppers using 2D barcode scanning via their smartphone.¹³ We are witnessing the birth of the m-commerce shopper. This is a trend that is being replicated in Australia and is likely to affect the needs of retailers in their store design and style of interaction with customers. The implications into the future for planning and urban design will keenly affected by this trend.
- 3.38. Most of this change process is being driven by the retailers themselves. But the structural changes currently underway will also require a Government response if Australian retailers are to compete on the global stage.

¹¹ IBM (2010)

¹² Retail Gazette (2011)

¹³ Tsirlunick (2011)

- 3.39. Part of the Government response is ensuring that the regulatory environment does not give online retailers, Australian or overseas-based, an unfair competitive advantage over local store-based retailers.
- 3.40. This regulatory response will involve reform in a host of policy areas including trading hours and the taxation system.
- 3.41. These reforms are discussed in detail in Section 4, which looks at the barriers to the Australian retail sector by maximising its potential and effectively competing in the new global retail environment.

4. Barriers to a Competitive Retail Sector

- 4.1. To achieve the aspiration of being competitive in a global marketplace, the retail sector needs to continue the process of structural change and respond to the challenges and opportunities presented by technology and globalisation.
- 4.2. A major part of this adaptation process involves working with governments to ensure that the existing regulatory framework governing retail is updated to reflect the new reality of a thrifty, convenience-seeking and technology savvy consumer.
- 4.3. There are many areas of regulation that need attention to maximise the opportunity from increased use of technology and ensure Australian retailers face a level playing field when competing in the global retail market.
- 4.4. This Inquiry is an important step in the process of focusing on policy areas that impact on retail. It is critical, however, that the Inquiry is only the start of the process – not the end.
- 4.5. Retail accounts for 4.2% of the national economy, a share of total industry value-added equal to that of the agriculture, forestry and fishing industry and utilities combined. It is the largest employing sector in the economy – with 11% of total employment.
- 4.6. Despite its economic importance, there is no Ministerial portfolio that acts as a dedicated champion for the sector within Cabinet. Other industry sectors are well represented, including agriculture, mining, tourism, small business and industry, but not retail.
- 4.7. ***ANRA recommends the Australian Government creates a Minister for Retail with the appropriate departmental support to ensure this key sector has a voice in Cabinet and an advisory Retail Panel similar to the Mining and Resource already established within Government.***

a. Trading hours

- 4.8. There are important linkages between trading hours and the use of technology that act to reduce the competitiveness of shop-based local retailers, in favour of online retailers, and reinforce an uneven competitive environment. The laws also create an uneven competitive environment between those stores located in areas that have less restrictive trading hours, such as special shopping designated zones. The trading restrictions also usually only apply to larger retailers which runs counter to competitive neutrality principles and unfairly impacting on customers who value the product choice and prices that large retailers provide. Staff of these large retail stores are also unfairly impacted by losing the ability to earn penalty rates.
- 4.9. Online stores are never closed and not subjected to trading hours regulations. This gives online stores a major competitive advantage over store-based retailers who face restricted trading days. Trading hours laws need to be modernised to reflect this.
- 4.10. Trading hours restrictions also create an unfair competitive advantage for those stores inside designated “special” shopping districts, that are used in many states (NSW, Qld, WA and SA).

- 4.11. In NSW around 25% of Local Government Areas (LGAs) are designated as special holiday trading areas and retailers within the LGA can open on public holidays such as Boxing Day and Easter Sunday. However, the retailers in the remaining 75% of the state cannot open and are left at a competitive disadvantage. This creates localised competitive issues. For example, in the Illawarra stores located in the Shellharbour LGA can open on Boxing Day and Easter Sunday but stores located in the neighbouring Wollongong LGA cannot. This situation offers no obvious discernable benefit to customers.
- 4.12. The situation is even worse in other states that only allow Sunday trading within certain designated shopping zones, such as Western Australia, South Australia and Queensland. This gives the stores inside the designated zone a competitive advantage every single week. Once again this offers no benefit to customers, especially those forced to travel longer distances to access stores that are open. For example, the residents of Warwick, QLD must travel to Toowoomba to shop on a Sunday. The same is true for residents of Perth who live outside the designated trading zones (where Sunday trading is permitted) and have no time to do their shopping other than on a Sunday.
- 4.13. The current trading hours regulations also discriminate on the basis of store size or what a store sells. In many states small stores enjoy unrestricted trading hours. This gives these stores a competitive advantage over their larger competitors and allows them to often charge higher prices at the expense of consumers with no choice. At the most extreme, there are a number of absolute restrictions on the ability of retailers to sell certain products, regardless of what hours they can open. This includes the current restrictions in place which limit the ability of some retailers, such as supermarkets or general merchandise retailers, from selling pharmacy products. This puts Australia at odds with overseas retailers where customers are able to conveniently purchase these items from a wide range of retail formats. Placing specific limitations on the types of products that a retailer can sell, either at all or at a particular time, directly hinders the ability of Australian retailers to develop innovative retail formats and offers that will be crucial to their ability to effectively compete in coming years.
- 4.14. The existing trading hours regulations also fail to service the modern consumer. Shoppers want to be able to fit their regular shopping around their work and family commitments. A recent ANRA survey found that some 83% of respondents felt that shops should be able to open when it is convenient for customers.
- 4.15. Shopping has also become a significant tourism and recreational activity that the modern consumer wants to be able to enjoy while on holiday. This trend can best be seen in the increasing popularity of Boxing Day sales, in those areas where trading is permitted.
- 4.16. Tourists are often left confused by trading hours arrangements. For example, interstate travellers expect stores to operate along similar arrangements across Australia. There is also annual confusion in many states about why some stores in some areas can open on certain public holidays but not others.

- 4.17. Tourism operators also have to contend with irregular trading hours around public holiday periods, which results in confusion. Tourist buses and boats arrive at different times and often they are unable to access major stores due to restrictive trading hours.
- 4.18. Restricted trading hours also penalise retail employees who work for stores located outside special trading zones or in states that persist with trading hours restrictions by preventing them earning penalty rates.
- 4.19. Some employee-groups have argued that it is unfair to make people work on public holidays and on weekends, but this argument ignores three key points.
- 4.20. Firstly, very few jobs in the modern economy involve working 9am to 5pm Monday-Friday. There are many industries that use shift work to keep operations going 24 hrs. There are many sectors, such as hospitality and community services, where people have always worked on public holidays, weekends and evenings. Furthermore, ANRA survey data shows 54% of current and past retail sector employees would be willing to work on any public holiday and only 12% of this group would not work on any public holidays.
- 4.21. Secondly, ANRA members report that they have no difficulty finding volunteers to fill shifts on public holidays and weekends, with many employees welcoming the flexible working arrangements that retailing offers. For example, Easter Sunday bears no significance for non-Christian employees who may welcome the opportunity to earn penalty rates.
- 4.22. Finally, without increased flexibility in trading hours traditional retailers will find it increasingly difficult to compete with online retailers and stores located in special zones. This ultimately puts their employment prospects at risk.
- 4.23. The current trading hour regimes also create significant bureaucratic process and red tape, due to the exemption application process. For some days of the year in some states retailers can apply for permission to trade on restricted trading days. Some retailers have been granted permission to trade on restricted trading days because of the nature of their business, such as automotive spare parts suppliers. In general ANRA members report difficult experiences across the states, all of which suggest that application process serves little public benefit.
- 4.24. In South Australia retailers were allowed to apply to trade on additional Sundays in the lead-up to Christmas 2010. ANRA members reported that this was a time consuming and costly process but that all applications were approved. This raises the question as to why the SA Government persisted with an application system, instead of declaring the days in question allowable trading days, to avoid the cost to retailers and the public service.
- 4.25. In contrast, the application system in NSW for Easter Sunday and Boxing Day trading makes it almost impossible to achieve an exemption. For Easter 2010 only one store in regional NSW was granted an exemption. For Boxing Day 2010 only two stores were granted an exemption, and one of these decisions was overturned on appeal. Despite this, retailers know that the possibility of opening on Boxing Day and Easter Sunday would boost sales and so many hundreds apply each year without success. This raises the question as to why NSW bothers to operate an exemption application process if there is so little prospect of success.

- 4.26. The logical regulatory response to this excessive red tape, the increased use of online shopping and increased consumer demands for more flexible shopping opportunities, is to de-regulate trading hours across Australia.
- 4.27. ANRA recommends all retailers should be allowed to open any time they choose except for Christmas Day, Good Friday and the morning of ANZAC Day (unless an exemption has been granted to trade on these days). Accepting that there is a COAG process in place, the issue of shop trading hours reform must be accelerated and an active incentivised program of productivity payments provided to states taking action within a three year window.**
- 4.28. ANRA recommends retailers should be able to prepare stores for opening during restricted trading days, reversing the current definition of a 'closed shop' in NSW.**

b. Tax System

Goods and Services Tax

- 4.29. The inquiry's terms of reference direct the Productivity Commission to examine the sustainability and appropriateness of the current indirect tax arrangements relevant to the retail sector, including the application of indirect taxes and duty to imported goods.
- 4.30. Australia's Goods and Services Tax (GST) is a multi-stage value-added tax, which, as the name suggests, is levied at multiple points along the production chain for a range of goods and services.¹⁴ This compares with a single stage sales tax – such as those imposed by Japan or the state of California in the United States – where a tax liability arises at a single point (typically upon purchase) in the production chain.
- 4.31. Both taxes typically inflate the final price faced by consumers by a fixed proportion and so can be treated in the same vein when examining the competitive impacts on consumer behaviour. Value-added taxes are a key component of the tax system in over 120 countries.¹⁵
- 4.32. Australia also imposes duty and/or excise on a number of imported items – as is the case in the vast majority of economies across the globe – but not to all goods and services. Certain exemptions may also apply as a result of a free trade agreement between Australia and the supplying nation.
- 4.33. ANRA recognises there are practical limitations to collecting taxes on lower-value goods imports. This has resulted in various regimes incorporating a low value importation threshold for the exemption of tax and/or duty liabilities. However, this must be balanced against the need to minimise distortions in the distribution of resources as well as promote competitive neutrality as far as possible. As such it would be preferable to apply the same rates of taxation – to the extent this is practicable – to all imports so that businesses compete on equal grounds. This principle is reflected in a number of submissions to the inquiry, including from the Shop, Distributive and Allied Employees Association.¹⁶

¹⁴ Board of Taxation (2010)

¹⁵ Ebrill et al. (2002)

¹⁶ Shop, Distributive and Allied Employees Association (2011)

- 4.34. In Australia the initial low value duty relief threshold was set at A\$250 in 1976.¹⁷ By the time Australia's GST was first introduced in July 2000, at the current rate of 10%, the corresponding low value importation threshold was \$1000 for items carried by Australia Post and \$250 for goods delivered by private courier. This threshold was equalised in October 2005 so that all imported goods (outside of alcohol and tobacco) were subject to the same \$1,000 threshold, regardless of delivery mechanism.¹⁸
- 4.35. This threshold was reviewed relatively recently. The Board of Taxation presented, in early 2010, its findings of a review of the application of GST to cross-border transactions and recommended the threshold remain at \$1,000 on the grounds that the administrative costs of bringing more goods under the GST regime are not matched by the anticipated benefits.¹⁹
- 4.36. The decision notes that a low value import threshold of \$250, for example, could result in a high proportion of administrative charges for lower value imports (\$251 in the case considered). The regressive nature of this threshold is essentially unavoidable when relatively fixed administration costs are concerned.
- 4.37. On a side note, ANRA is not in a position to specifically comment on how developments in technology have impacted on the administrative costs of collecting GST and other tax revenue on imported goods. However, it is difficult to imagine that technological development would have hindered the ability of Customs to process goods movements more efficiently and therefore facilitate lower administrative costs.
- 4.38. The Board of Taxation was also of the view that the non-indexed (fixed) nature of the \$1,000 threshold implies that the real value of the threshold falls over time, and thus reduces any potential bias for imported goods over local goods of the same quality and value.²⁰
- 4.39. However, the real value of the \$1,000 threshold is influenced not only by domestic price inflation but also by movements in the exchange rate and foreign price inflation.
- 4.40. ANRA acknowledges that the Board of Taxation's conclusion may prove to be true if Australian dollar exchange rates have the tendency to 'mean-revert' – but this would typically only occur, if at all, over long periods of time. In this case appreciation and depreciation of the currency would cancel out and the general impact of domestic price inflation will be the only influence to erode the real purchasing power of the Australian dollar. However, it is commonly acknowledged that floating exchange rates have a tendency to 'overshoot' and stay misaligned for extended periods.²¹ This would see the real value of the \$1,000 threshold increase/decrease for extended periods of time depending in currency fluctuations.
- 4.41. For example, Fig 4 displays the value of A\$1,000 in real foreign currency terms for a selection of Australia's major trading partners.

¹⁷ PricewaterhouseCoopers (2009)

¹⁸ Productivity Commission Issues Paper (2011)

¹⁹ Board of Taxation (2010)

²⁰ Board of Taxation (2010)

²¹ RBA (2010)

Fig 4: Value of A\$1000 threshold expressed in various currencies

	2000 (base)	2005	2010	% change 2000 - 2010
Japan	62,350	85,970	82,218	32%
China	4,769	5,819	5,031	5%
United States	576	671	726	26%
United Kingdom	380	391	485	28%
New Zealand	1,276	957	984	-23%
South Korea	655,600	660,042	778,527	19%
Taiwan	18,033	23,677	26,278	46%
Singapore	995	1,227	1,064	7%
Hong Kong	4,489	6,330	6,847	53%
Europe	626	550	569	-9%

Source: RBA, IMF and ANRA calculations.

- 4.42. To illustrate, consider the case of Japan. Back in 2000, A\$1,000 purchased 62,350Y worth of goods & services. The change in exchange rate and Japanese price levels over the past 10 years mean that A\$1,000 now buys 82,218Y worth of goods & services in Japan – so the real value of A\$1,000 has increased by 32% over the corresponding period. This means that Australian consumers can now potentially source almost one-third more goods and services from the Japanese market with the same nominal A\$1,000.
- 4.43. Fig 4 demonstrates that there is a tendency for the real value of the A\$1,000 threshold to fluctuate significantly when considered in real foreign currency terms. As such, ANRA does not agree with the Board of Taxation's conclusion that the threshold falls over time and so reduces the potential bias for imported goods over goods sold in local retail stores.
- 4.44. ANRA understands there are significant and fundamental differences in how the various indirect tax and duty structures influence the distribution of resources within each respective economy, and in how these indirect tax arrangements are administered. Much of these differences reflect particular features of each respective national economy and so might not be appropriate for the Australian case.
- 4.45. However, the coverage of a number of alternative regimes by the issues paper demonstrates the value in drawing on overseas experience when assessing the appropriateness of Australia's current indirect tax and duty regime for imported goods.
- 4.46. For example, it would be useful for the Productivity Commission to examine the cost of collecting tax on imports in countries that have low value thresholds substantially below Australia's \$1000. It is puzzling how these tax regimes can be sustained, given the cost of collection concerns raised by the Board of Taxation as recently as last year.
- 4.47. In addition in the US currently the Main Street Fairness Bill is expected to be introduced by Democrat Senator Richard Durbin.²² This legislation is aimed at ensuring the collection of taxes for online purchases across the borders of 50 states in the US. This proposed legislation has not been without controversy, but it is an issue being actively discussed by the US Congress and Senate.

²² McCullagh (2011)

4.48. In general, low value importation thresholds are based on either the value of goods being imported – as is the case in Australia – or the threshold is established from a revenue perspective where liability arises on the basis of applicable tax revenue. It appears the value approach is far simpler to administer, in light of variances in applicable duties on imported goods, and therefore easier to understand for infrequent importers.²³

4.49. Figure 5 below expands on information provided by the issues paper by considering other international experiences.

Fig 5: International consumption tax thresholds

	Introduced	Rate	Last Modified	Current Rate (reduced rate)	Import Threshold*	A\$ equivalent**
Canada	January 1991	7%	Jan 2008	5%	Goods C\$20	\$21
Hong Kong	Considered in 2006 but was never introduced.				All imports are tax and duty free	N/A
Japan	April 1989	3%	Apr 1997	5%	¥10,000	\$124
New Zealand	October 1986	10%	Oct 2010	15%	More than NZ\$399	\$314
Singapore	April 1994	3%	July 2007	7%	S\$400	\$320
Switzerland	January 1995	6.5%	Jan 2010	8% (2.5%)	CHF62 (CHF 200)	\$65 (\$209)
United Kingdom	April 1973	10%	Jan 2011	20%	GBP18	\$30
European Union***			Jan 2007	15% (5% reduced)		
Ireland	November 1972	16.4%	Jan 2010	21% (13.5%)	22 euro	\$32
France	January 1968	16.7% (6%)	Apr 2000	19.6% (5.5%)	22 euro	\$32
Netherlands	January 1969	12% (4%)	Jan 2001	19% (6%)	22 euro	\$32
Germany	January 1968	10% (5%)	Jan 2007	19% (7%)	22 euro	\$32

* Typically includes purchase price, insurance, shipping and any other applicable duties.

** Based on the average daily exchange rate for 2010.

*** The European Union rates are set as a base for member states so not implemented in practice.

4.50. Fig 5 demonstrates that Australia's low value import threshold of \$1000 is high when compared against other developed economies.

4.51. ANRA acknowledges the recent findings of the Board of Taxation regarding maintaining the \$1000 threshold and would not support a situation where the tax collected was significantly less than the administrative cost of collecting the tax. Nevertheless, the fact that other comparable countries have significantly lower thresholds than Australia's \$1000 suggests that further investigation of the costs associated with the collecting this tax is needed, including an examination of tracking methods used in other countries.

4.52. As discussed earlier, ANRA estimates that the low value import threshold costs around \$480 million in lost GST revenue currently and is likely to rise further in the coming years. This is not an insignificant amount and suggests that there is a case for further examination of reducing the low value threshold to a level closer to the international levels outlined in Fig 5 above.

²³ There are further treatments available for gifts in some countries, but these are not discussed for the sake of simplicity.

- 4.53. ANRA argues that consideration also needs to be given to the potential employment costs of the loss of sales that will be incurred by local retailers as sales increasingly flow to overseas online retailers. This is not an easy impact to assess, however, if offshore internet sales rise to almost \$9 billion in future years (see paragraph 3.2), this would represent around 4% of total retail sales. Translated to current employment levels, this would represent 48,000 jobs at risk from overseas online sales.
- 4.54. ANRA recognises that the Australian Government has already indicated its reluctance to reduce the low value threshold for imported goods. In light of this, ANRA commissioned PricewaterhouseCoopers to undertake a review of other possible options that would give local retailers a more level playing field than they currently face from overseas competitors.
- 4.55. This exercise highlighted the complexity that would be involved in using other options and the difficulty in implementing and enforcing them.
- 4.56. Options considered included requiring any overseas firm that sells products to Australian residents to register for the GST once they had reached sales of A\$75,000. This is a system used in the EU. While a workable option in theory, it presents a significant compliance issue in terms of the difficulty of bringing action against overseas companies suspected of violating Australian tax laws. There may also be implications in terms of international trade laws which discourage the use of regulations that act to restrict free trade.
- 4.57. Another option considered was to introduce a self assessment process for GST on imports within the individual income tax reporting system. In effect, at the end of each tax year individuals would add up the value of directly imported goods they had purchased over the internet and pay 10% GST on the value of these goods. Imports per individual can be tracked through the Customs system which assigns an importer's identification number to each customer importing goods into Australia. This data could then be compared to the self-assessed taxes to ensure compliance.
- 4.58. This system would involve a significant expansion of the ATO's capabilities and increase in the complexity of the income tax return system because of the absence of a Tax File Number (TFN) within the GST system, which is used to track most other self-assessed claims.
- 4.59. Both of these solutions are significantly more complex than reducing the low value threshold. Hence, ANRA's recommendation that further work is undertaken to better measure the cost of collecting GST on low value goods in countries that have much lower thresholds than Australia's.
- 4.60. ***ANRA recommends the low value threshold is reduced to \$100 within the next Budget cycle, pending a full investigation into the cost of collecting GST above this point based on the experience of comparable countries.***

Customs Duty

- 4.61. The low value GST threshold on imports, however, is not the only tax challenge facing Australian retailers trying to compete with offshore retailers. Many goods that enter Australia are also subject to customs duty. Duty rates vary from free up to 10%, with the maximum rate applying to clothing and textiles. There are limited concessions available and they generally only apply to specific goods, not including clothing. For administrative simplicity, there is also a low value threshold of \$1000 under which Customs Duty is not liable.
- 4.62. The combination of a low value threshold for GST and customs duty on some goods means Australian retailers are forced to charge up to 22% more than offshore competitors, simply because of the GST and customs regimes currently in place. The cost impact of the GST is further inflated because the GST is charged on the value of the goods plus the duty, not just the value of the goods.
- 4.63. For example, a product retails for the equivalent of A\$200 on a foreign-based website. This is below the low value threshold and so Australian consumers can buy the good directly paying A\$200. Under normal importing rules this good would be subject to GST and customs duty if an Australian retailer imported it for sale in its stores. This adds \$42 ((200*10% Customs duty)*10% GST) to the landed cost of the goods for Australian retailers.
- 4.64. The Australian Government raised \$6 billion from Customs Duty in 2010/11²⁴. The major contributing sectors were excise-like goods (tobacco and alcohol) of \$4.8 billion, passenger vehicles of \$780 million and clothing, textiles and footwear of \$620 million. Other imports raised \$1.4 billion in revenue.
- 4.65. Consumption goods account for 25% of all imports, suggesting "other import" revenue linked to consumption goods is around \$350 million.
- 4.66. The Australian Government plans to reduce Customs Duty on clothing, textiles and footwear to 5% at January 1 2015.
- 4.67. The Australian Government has indicated that it does not consider customs duty to be a revenue raising exercise, but more about protecting local industries from imports.
- 4.68. This protectionism, however, is increasingly irrelevant in the face of increased direct purchases below the \$1000 threshold by Australian consumers. The surge in offshore online retailing means the tariff system is in reality providing no protection for local manufacturers and is harming local retailers.
- 4.69. ANRA recommends abolishing Customs Duties on January 1 2012 on all consumption goods, except clothing, textiles and footwear and passenger vehicles.**
- 4.70. ANRA recommends reducing Customs Duties on clothing, textiles and footwear to 5% as of January 2012 and to 0% as of January 2015.**

²⁴ Treasury (2011)

- 4.71. This will result in a loss of revenue of around \$1 billion per year, when fully implemented. But it would save on administrative costs for the public sector in terms of collecting the tax. It would also save on administrative costs for importers and brokers who are required to complete significant amounts of paperwork around the Customs Duty system.
- 4.72. Importantly, this policy change would be a proactive step by the Australian Government to level the playing field amid the increased international competition facing local retailers.

Total Tax Burden on Australian Retailers

- 4.73. Research by PricewaterhouseCoopers shows Australian retailers face a high number of taxes when compared to other Australian industry groups.²⁵ A survey conducted by PwC has identified that retailers face a total tax rate of 45%, representing all business taxes borne as a percentage of profits before all tax. This includes corporate income tax and other business taxes.
- 4.74. The survey also identified the number of taxing points for taxes borne and collected across Federal, States and Territories in the supply chain, which identified retail as the industry with most taxing points, amounting to 32 in total. The vast majority of these relate to taxes borne, and a low number relate to taxes collected. This can be seen as an indication of the level of compliance burden faced by the retail industry, especially when compared to other industries.
- 4.75. The GST is an example of a tax that is not paid by Australian retailers but that, as collectors of the tax, levies a high compliance burden on the retail sector. Australia-based retailers have substantial costs associated with collecting the GST and complying with the indirect tax system. These are costs that international online retailers, not registered within the Australian GST system, do not face.
- 4.76. ***ANRA recommends the Productivity Commission undertakes a review of the taxes facing retailers and looks at ways to reduce the number of taxes paid and the size of taxes paid. This could involve harmonisation and consolidation opportunities which should be a critical part of discussions at the upcoming Tax Summit in 2011.***

c. Parallel importing restrictions

- 4.77. The Australian economy is broadly an open economy, with strong trade connections to the international economy. However, there remain anomalies in some trade regulations that put offshore retailers at a distinct advantage to local-based retailers. The issue of Customs Duty has been discussed above (from paragraph 4.60) but other issues in the international supply chain also exist to push up the price of retail goods in Australia.
- 4.78. One of the most obvious examples of this is the impact that the continuing ban on parallel importing within the Copyright Act 1968. This Act restricts imports into Australia of material subject to copyright, such as books, computer software and DVDs. In the past these restrictions also covered music sales but these were lifted in 1998.

²⁵ PricewaterhouseCoopers (2011)

- 4.79. These restrictions mean local retailers are forced to buy products from the local publisher only and are not permitted to import legitimate products produced offshore. This limits the competition in the wholesale market for these products, ultimately leading to local consumers paying more than their overseas counterparts.
- 4.80. Importantly, these restrictions do not apply to imports for personal use – for example, buying a book from an overseas bookseller online. This means consumers can buy these products from overseas sellers much cheaper than they can be offered by Australian retailers.
- 4.81. Parallel importing has a negative impact on local retailers of these products, such as booksellers or computer game retailers, who are trying to compete in what is now a global market for these products.
- 4.82. A study into the impacts of parallel importing restrictions on books by the Productivity Commission in 2009²⁶ recommended that the restrictions be lifted in 3 years.
- 4.83. Lifting parallel importing legislation into the modern era would recognise that persisting with restrictions is both damaging local retailers and causing Australian consumers to pay more than their overseas counterparts.
- 4.84. ANRA recommends the immediate removal of all parallel import restrictions.**

d. Supply-chain costs

- 4.85. Aside from parallel importing restrictions, major Australian retailers also face higher costs via their commitment to using reputable, reliable wholesale providers. In many cases these wholesalers are the officially licensed supplier of an international brand in Australia and pay licence fees for that right. These fees and associated costs are passed through the supply-chain to consumers.
- 4.86. In contrast, online retailers that access international distributors directly may not hold these rights to import brands into Australia, but still do so via direct sales to consumers via online sites.
- 4.87. ANRA members also report that some international manufacturers use differential pricing policies that can mean Australians pay higher prices than in other markets.
- 4.88. These practices leave Australian retailers that are operating within traditional supply-chain frameworks at a competitive disadvantage.

Case Study: MYER

Myer is the biggest cosmetics retailer in Australia. However, it is facing competitive pressure from overseas online retailers, such as strawberrynet.com, who have access to products at lower international wholesale prices than Myer is able to have in Australia.

There has always been a disparity with Australian and US pricing in cosmetics with much lower pricing in the US. Australia's geographic isolation has led it to being used as an outpost for cosmetics companies with significantly higher wholesale prices.

²⁶ Productivity Commission (2009)

This disparity has become more obvious as international online retailing has emerged.

Myer has a number of options for securing cosmetics supply in Australia including:

- *Purchase from local suppliers*
- *Source from grey market (distribution channels which, while legal, are unofficial, unauthorised, or unintended by the original manufacturer)*
- *Buy from the supplier via the US*

Myer purchases its internationally branded cosmetics through local distributors and has strong relationships with many of these suppliers.

Myer cannot buy its full range from the grey market as it cannot guarantee continuous supply. It is also unlikely that it could purchase from US suppliers as, despite being the biggest cosmetics retailer in Australia, our volumes relative to the US market are not significant.

Furthermore, if it were to purchase from either the grey market or through the US Myer would forgo the support of the local suppliers, in the form of marketing, markdown funding, staffing support, and cosmetic counter fit-outs.

Cost comparison, Product X, a leading women's cosmetic line

	MYER STORE	DOMESTIC WEBSITE (myer.com.au)	INTERNATIONAL WEBSITE (strawberrynet.com)
Retail price (A\$)	\$234	\$234	\$135.50
Wholesale price	\$150-170	\$150-170	Estimated at around \$40

It is clear from the table above that consumers can access the same product from overseas websites at a significantly lower price than can be offered by retailers that operate within traditional supply-chain frameworks. This is largely driven by the fact that international online retailers can access the same product at the lower international wholesale price, which is not available to Australian-based retailers operating within standard, reputable distribution channels.

- 4.89. This submission has already discussed how technology is helping consumers to be better informed and develop new purchasing channels. The same principals can be applied for retailers in terms of their supply-chain management.
- 4.90. Retailers increasingly have the opportunity to directly source goods from manufacturers in the country of origin. Direct sourcing has the potential to reduce the number of points in a supply chain which will lower cost.
- 4.91. Similarly, retailers could make increased use of existing Free Trade Agreements that allow goods to be imported at a lower Customs Duty rate or duty-free.
- 4.92. The ability for an individual retailer to conduct international transactions in or with a supplier in a foreign country will vary, depending on the sophistication and understanding of the buyer.
- 4.93. **ANRA recommends the Australian Government put in place measures to assist the Australian retail industry regarding implementation of direct sourcing arrangements and/or FTAs.**

e. Planning

- 4.94. In 2010 ANRA made a submission to the Productivity Commission's inquiry into *Performance Benchmarking of Australian Regulation: Planning*.
- 4.95. This submission highlighted four key features that retailers seek in a planning system. It should,
- deliver certainty for new developments,
 - be applied consistently,
 - be responsive to the reality of the modern consumer, and
 - provide adequate land for retail use.
- 4.96. The report from the Productivity Commission for this inquiry recognised many of the issues raised by ANRA members, where the planning system in various states fails to meet these 4 criteria.
- 4.97. Many of the issues raised in ANRA's submission to the planning benchmarking study are also relevant to this inquiry as they highlight the way in which the planning system acts as a barrier to Australian retailers competing on a national and international level. These included excessive compliance costs, misuse of competition considerations within the planning process, the failure of the planning system to deliver convenient shopping opportunities for the time-poor modern consumer and the inability if the planning system to keep pace with changing retail trends. ANRA specifically welcomes the Productivity Commission's support for the use of less prescriptive land use zones (and overlays) which would support and more easily facilitate the development of new and innovative retail formats.
- 4.98. Compliance and opportunity costs come from a variety of sources within the planning and development framework in Australia.
- 4.99. Legislative compliance costs arise when the planning framework fails to keep pace with new retailing format trends and when planning focuses on herding people into "retail designated" areas instead of recognising that people want to shop near where they work, live and play. That is, convenience is a key driver for consumers and if retailers are somewhat restricted in location then consumers will simply look for alternatives.
- 4.100. Regulatory compliance costs arise when the assessment process is cumbersome and involves long delays in reaching a decision. Many of these delays are caused by the system being unbalanced and putting undue weight on objections to projects, even when projects are consistent with existing buildings and land uses.
- 4.101. Inconsistency in planning laws and applying these also creates compliance costs. This is particularly relevant for national retailers, such as ANRA members, that often have numerous projects underway across various jurisdictions – all of which have different rules that are often not applied consistently.
- 4.102. In some States the planning system also closely interacts with competition policy, when opponents of projects can argue it should not go ahead on the grounds of competition considerations.
- 4.103. On December 7 2009, the Council of Australian Governments (COAG) committed that planning systems should ensure:

- opportunities for gaming of appeals processes are minimised
- processes are in place to maintain adequate supplies of land suitable for a range of retail activities; and
- any unnecessary or unjustifiable protections for existing businesses from new and innovative competitors are eliminated²⁷.

- 4.104. ANRA is broadly supportive of COAG's stated principals and believes implementing these principals across Australia's planning systems would be a positive step forward and help remove a key barrier to the retail sector achieving its growth aspirations.
- 4.105. Retailers have a number of concerns about the operation of planning systems in urban areas. These include issues such as inadequate land supply, infrastructure charges, transport planning, sustainability policies and centres policy.
- 4.106. A lack of appropriately zoned land for retail pushes up development and rental costs – which are ultimately passed on to consumers. Sydney has 249 square meters of floor space per 1000 people. Compared to an Australia-wide average of 328 square meters per 1000 people. ANRA members estimate that at least 7.12 million square meters of additional retail floor-space will be required in the Sydney metropolitan region by 2036. This is to cater for current and future population growth and to account for continuing consumer driven demand for increased retail floor-space.²⁸
- 4.107. ANRA is concerned about the high infrastructure charges that are currently levied on new retail developments and the inconsistency across jurisdictions – an issue raised by the Productivity Commission in its draft report on planning regulations.
- 4.108. There is a growing view across state planning documents that retail should be located close to public transport hubs. This view is not supported by the actual behaviour of consumers – who continue to prefer to shop using private cars.
- 4.109. Planning agencies need to recognise that consumers drive retail trends, not planning laws. Retail that is forced to be located near transport hubs will not attract interest from customers (and thus retail operators). This will increase pressure on existing retail areas and not achieve the aims of planning professionals to have people shop near to where they live.
- 4.110. Australia's restrictive planning and zoning regimes also make it difficult for new retailing formats to gain approval. Many of the States have narrow definitions of what constitutes a retail outlet and emerging formats that do not fit that definition – such as larger warehouse-style stores - can find it difficult to access suitable locations.
- 4.111. These many challenges presented by the planning system created inhibit the potential growth of local retailing and acts as a barrier to the growth of the sector.
- 4.112. ANRA recommends the Productivity Commission use this Inquiry, and its inquiry into Performance Benchmarking of Australian Regulation: Planning to drive change in Australia's planning system to ensure Australian retailers can deliver the types of stores consumers want in the locations they want and need them.**

²⁷ NSW Government (2010)

²⁸ Woolworths Ltd (May 2010)

f. Market Structure

- 4.113. As the Issues Paper for this inquiry points out, there have been many recent inquiries that have looked at the market structure of retail – especially supermarkets. ANRA has made various submissions to these inquiries that highlight the high level of competition that exists in Australian retail. Examples of the high level of competition in this sector can be seen in the current large number of store-wide and weekly price reductions available to customers of Australia's major supermarket chains.
- 4.114. Australia is a competitive market for groceries and the ACCC confirmed that after its exhaustive inquiry in 2008. There are over 30,000 food retailers operating in Australia. The local butcher or green grocer accounts for over 50 per cent of the fresh food market, not the major supermarkets.
- 4.115. Supermarkets are also facing increased competition from new entrants and new formats, such as Aldi and Costco. This indicates that competition exists in Australian retailing, even when there are small numbers of large operators.
- 4.116. As discussed elsewhere in this submission (paragraph 3.1), these competitive pressures are driving constant change in retail via the emergence of new store formats that respond to changing consumer demands and the need to stay one step ahead of competitors.
- 4.117. There have also been a number of specific steps undertaken by major supermarkets to encourage increased competition, such as the commitment by Coles and Woolworths to phase out restrictive leases that previously limited the number of supermarkets in shopping centres.
- 4.118. Despite this evidence of competition, the Australian Government has undertaken a number of legislative changes aimed at restricting the ability of Australian retailers to grow. This includes changes to the Competition and Consumer Act, with further adjustments still being considered.
- 4.119. In 2010 ANRA opposed plans to amend the unconscionable conduct provisions contained in the then Trade Practices Act (now the Australian Competition and Consumer Act) and the ASIC Act by introducing a statement of interpretive principles and removing the distinction between unconscionable conduct that affects business and that which affects consumers. ANRA also opposed plans to change section 50 of the TPA to provide greater clarity to the provisions regulating mergers and acquisitions, on the basis that the ACCC found no evidence that creeping acquisitions was a problem in the sector. These proposed amendments lapsed with the ending of the last Parliament and ANRA would argue strongly against any plans to reintroduce them. ANRA is concerned that implementing any further changes to the ACC Act is likely to introduce new uncertainty for all sectors of the economy, including the retail and retail property development sectors, as a time when these sectors are already experiencing a number of challenges. In doing so, it will undermine the ability of the retail sector to continue investing in new stores and jobs in Australia.
- 4.120. ANRA members are also significantly concerned at measures such as the ACT Government's Supermarket Competition Policy that artificially distort market structure and negatively impact on the level of competition with grocery retailing. In 2010, the ACT Government announced its approach regarding the release of a number of packages of land for new supermarket development.

4.121. These land releases are being made in accordance with the ACT Government's Supermarket Competition Implementation Plan. This policy specifically excludes some supermarket retailers from participating in nominated land releases. There is no sound competition or policy basis for this and there is a risk that this policy will actually reduce competition and increase process and groceries in the ACT. This view is confirmed by a study undertaken by the Institute of Public Affairs²⁹. ANRA believes there is no basis for such measures in the ACT or any other jurisdiction.

4.122. ANRA recommends the Australian Government does not re-introduce plans to change s.50 of the ACC Act.

4.123. ANRA recommends that the ACT Government immediately undertakes a comprehensive review of the ACT Supermarket Competition Policy to determine whether it has delivered lower prices and enhanced competition for the residents of the ACT.

g. Consumer protections

4.124. Australian consumers are provided with a large, and increasing, amount of protection when making purchases. This protection includes laws covering a range of areas such as labelling information, finance provision, product warranties and mandatory safety standards.

4.125. Australian retailers understand that they have a responsibility to their customers, but this is not a costless exercise. It is a balancing act. Of course, some basic information and protection is required, but each new regulatory requirement has a cost to implement which is then, with varying success, passed back to consumers through higher prices. Also of note is the fact that these new labelling requirements are generally not applied to goods purchased overseas. This potentially undermines the customer protection and awareness objectives that underpin their development in the first place.

4.126. One of the main areas of growth in recent years has been around labelling provisions – especially for food. ANRA has made numerous submissions to various labelling inquiries in recent years, covering specific labelling issues (such as beef and DVDs) through to general food labelling (such as the Blewett report). The outcome of most of these inquiries has been additional labelling regulations that add to compliance costs and ultimately put upward pressure on prices.

4.127. Similarly, additional new consumer protections for point-of-sale (POS) finance will impact on some retailers. Retailers are exempt from requiring to have a full licence when offering POS finance. Nevertheless, it is anticipated that some retailers will have to provide additional information to customers seeking POS finance which will make the process more time consuming and add to compliance costs.

4.128. Product warranty legislation has also undergone changes in recent years. The relative harmonisation aspects of these new laws were welcomed. But some new requirements around warranties mean additional costs for retailers, especially if selling imported goods that now need additional information within the packaging. Once again these new product warranties are not included in goods purchased from overseas retailers.

²⁹ Institute of Public Affairs (2010)

- 4.129. ANRA members also recognise it is to retailers' and consumers' benefit that products meet appropriate safety standards. However, these additional requirements are typically only enforced on Australian retailers and yet again present another aspect of consumer protection that is generally not applied to overseas purchases.
- 4.130. The breadth of issues around this topic is too complex and broad to explore in detail in this submission. But it is important for policy-makers and consumers to understand that these regulations come at a price – one that is invariably paid for by consumers. ANRA believes a more balanced approach is needed.
- 4.131. As retailing becomes more global these issues will need additional attention in order to ensure that Australian retailers can compete internationally, against competitors that invariably do not face regulatory costs in these areas that are as high.
- 4.132. ANRA recommends the Australian Government takes steps urgently to ensure all goods being imported into Australia, including direct purchases by households, meet all Australian safety standards and labelling requirements.**

h. Labour market structure

- 4.133. The retail sector is Australia's largest employer, with 11 per cent of Australia's workforce – that's 1.2 million people. Around 47% of retail jobs are part-time and 53% are full-time.
- 4.134. Retail is especially important as an employer of young people and of women seeking part-time work. About half of all employees aged 15 to 19 and one in five of employees aged 20 to 24 works in retail. Retail is also the second largest employer of women; 804,000 women work in the sector with more than 658,000 working part-time.
- 4.135. One of the main reasons that retail is an attractive sector for students and women is the flexibility the sector offers its employees. The wide availability of casual and part-time work in the industry allows employees to balance their work with study and caring responsibilities. Indeed, retail provides many Australian's with their first job – usually casual employment while they are studying.
- 4.136. It is also likely these flexible employment arrangements will become increasingly important for Australia's efforts to cope with an ageing population. Part-time and casual work is likely to play a greater role for Australians' seeking work during the later stages of their working life and during the transition into retirement.
- 4.137. It is important for employees and employers that this flexibility is maintained and encouraged. Regulations that restrict this, such as minimum shift requirements or rising casual penalty rate loadings, act as a barrier to employment for some potential employees and restrict the flexible offerings retailers can make.
- 4.138. The main employment arrangements within retail are a combination of Enterprise Bargaining Agreements (EBAs) and Awards.

- 4.139. Fair Work Australia's Research Report 1/2010 highlights that the retail sector is one of the most award dependent sectors of the Australian economy. The level of award reliance has decreased slightly from a peak in 2002 but retailing remains one of the industries with the highest award dependence. This exposure means that the annual minimum wage decision has a significant direct impact on many businesses in the sector.
- 4.140. In addition to this high direct exposure, retailers who operate under collective agreements or enterprise agreements also feel the effects of award-based decisions.
- 4.141. The desire of employee representatives to maintain wage relativities between award and non-award employees means any decision effecting award rates inevitably flows through to the wage negotiation process and becomes the minimum increase for any collective bargaining agreements.
- 4.142. As such, the Modern Awards process and the annual minimum wage decision are important influences on the wages picture in the retail sector.
- 4.143. The combination of the first tranche in the Modern Award adjustment process and the substantial \$26.00 per week increase in the minimum wage at July 1 2010 represented a significant jump in retail sector wages last year. This was particularly the case when taking into account increases in casual loadings and penalty rates across many states.
- 4.144. ANRA submitted a recommendation of a rise in the Federal Minimum wage of \$11.50/week at the most recent FWA annual wage case.
- 4.145. ANRA recommends restraint in minimum award wage increases while the retail sector is experiencing soft growth.**

i. Skills development

- 4.146. ANRA members are committed to training their workforces. They do this at a variety of levels including on-the-job training, in-house courses, apprenticeships and traineeships and tertiary education. Indeed, ANRA members Woolworths and Coles are two of Australia's largest employers of apprentices and trainees.
- 4.147. This training covers traditional customer service retail roles but also extends to specialist retail areas, such as bakers and butchers. Training in the retail sector also extends to the many administration and support roles in the sector, such as finance, HR, technology and management.
- 4.148. This breadth of training is critical to the continued growth of the sector and ANRA members are committed to continuing their role in preparing the retail sector of the future.
- 4.149. Government also has a role in the training of retail sector employees, especially in the area of apprenticeships and traineeships. Recent developments in training policy discussions have raised concerns that governments may be shifting the focus of training assistance and support away from retail.
- 4.150. The Federal Government recently conducted a review of apprenticeships called *A Shared Responsibility: Apprenticeships for the 21st Century*.

- 4.151. This report was conducted by an expert panel and made a number of recommendations, many of which were welcomed by the retail sector. However, there is one recommendation that is of concern to ANRA.
- 4.152. Recommendation 5 calls for current Australian Government employer incentives to be redirected to provide structured support services to eligible apprentices and trainees and their employers in occupations that are priorities for the Australian economy.
- 4.153. The paper identifies eligible apprentices as “both in the traditional trades and the newer forms of apprenticeships and traineeships, such as community services, health services and information technology.”
- 4.154. ANRA is concerned that retail apprenticeships may not be classed as ‘eligible apprentices’ which could result in a loss of critical Government support for apprentices in the sector.
- 4.155. The flagging of such a reduction fails to recognise the contribution retail makes to both training and employing Australians. Successful training programs depend on a three-way commitment from employers, employees and government. Any reduction in the role of government support would put at risk future training of the retail workforce.
- 4.156. Critically the style of retail skills will also need to change to meet the needs of new technology and the ever increasing prospect of the m-commerce enabled shoppers. These shoppers have done their research out of store and have a clear idea of the goods they want. The in store staff role may be less about ‘selling’ and more about facilitating the immediate delivery of the item. This customer will expect staff in-store to connect directly with company inventory and supply chain information via technology, such as the already available UPS applications for supply chain management, and provide immediate details and capacity to finalise a purchase. The implications from a training perspective for many retailers will need to recognise this increase in technology reliance.
- 4.157. ANRA recommends that the Australian Government commits to playing its role in training the retail workforce of the future via continuing financial support for retail-based apprenticeships and traineeships.**

j. Logistics and transport

- 4.158. The nature of retailing means that it is a heavy user of the nation’s transport networks and highly reliant on having access to a freight network that allows retailers to deliver goods to stores as quickly as possible so customers can access the products they need.
- 4.159. Australia is a geographical large country with a small population. While much of this population is concentrated in the capital cities, Australia also has many regional towns that have significant populations that need to be serviced by retailers.
- 4.160. This combination of large distances and small population means retailers are likely to face higher transportation costs within Australia than their competitors in smaller, more densely populated nations such as Europe and much of Asia.

- 4.161. Australian retailers also face higher international transport costs when they import goods into Australia for sale in their stores. Australia's small population means cargo tends to be delivered in smaller, more expensive ships, than are used to ship to markets with larger populations such as Europe and the US.
- 4.162. One of the keys to keeping a logistics chain operating smoothly and efficiently is having a reliable transport network that allows goods to be quickly distributed across capital cities and regional areas. Consequently, public investment in rail and road networks across the country makes a positive contribution to minimising transport costs for consumers.
- 4.163. Logistics systems also need access to warehousing facilities, which can often cover large areas for the major retailers. Access to land and gaining planning approval for such operations is critical to minimising transport costs.
- 4.164. Retailers have three key concerns about the current national transport network.
- 4.165. Firstly, congestion – particularly road congestion in urban centres. This is a major public policy issue clearly beyond the scope of this paper. However, its existence means that retailers would prefer to make deliveries outside peak travel times to both speed up the delivery process and keep trucks off the road in peak times. Unfortunately, local government regulations often restrict delivery times and force most deliveries to be made in peak congestion times.
- 4.166. Secondly, the necessity of many goods being delivered by retailers means they need a freight network that can cope with extreme weather conditions. Retailers played a key role in maintaining the supplies of essential groceries during the most recent flood disasters in Queensland and Victoria. But this was not an easy task due to limited alternate road options in many regional communities.
- 4.167. Finally, many national retailers have to deal with multiple regulatory regimes within their logistics chains. Compliance cost could be greatly reduced if there was increased consistency across Australia.
- 4.168. ANRA welcomes the work currently underway by Infrastructure Australia to develop a National Land Freight Strategy and encourages consideration of the issues highlighted that impact on retailers.
- 4.169. ANRA recommends the National Land Freight Strategy addresses the issues of urban congestion, network reliability and multiple regulatory regimes that are having a negative impact on retailing logistics chains.**

k. Environment

- 4.170. Like many other sectors, retailers are increasingly embracing the benefits of reducing their environmental impact. This manifests itself in many ways, such as new store layouts that use less energy, reducing water use through water tanks and waste management projects such as encouraging the use of re-usable bags.
- 4.171. Many of these projects have been driven by voluntary actions on the part of retailers. The sector recognises the direct monetary benefits of these projects and their responsibilities to the broader community.

- 4.172. Increasingly, however, there is a tendency for governments to opt for mandatory regulations. This is seeing the emergence of 'green tape' which is imposing costs on retailers that, in many cases, are not faced by international competitors.
- 4.173. ANRA works with various government agencies on the development of these emerging regulatory regimes around the environment and consumer-related legislation. These include the National Industry Reference Group on Chemical Security, the Australian Packaging Covenant Council and the National Packaging Covenant Industry Association and the Fast Choices Labelling Reference Group.
- 4.174. Retailers understand that they have a responsibility to the broader community to reduce their environmental footprint. But as with consumer protection regulations, this is not a costless exercise and leaves retailers facing a higher cost structure than any competitors that are not subjected to these regulations.
- 4.175. ANRA recommends increased focus on minimising the growth of 'green tape' facing Australian retailers.**
- 4.176. As with other industry sectors, retailers are also facing considerable uncertainty about the impact of the proposed carbon tax on their operations and customers. The lack of detail about the level of the tax and the amount of household and industry assistance to be provided makes it difficult to assess how to respond to the tax and understand the impact on retail operations.
- 4.177. ANRA recommends the Australian Government releases the details of its carbon tax as soon as possible and well in advance of the legislation and start date. This will allow the retail sector to provide input into the legislative process and prepare its own business and customers for the impacts.**

5. Concluding Comments

- 5.1. This submission has provided an overview of the retail environment as it currently stands in Australia and provided workable and constructive suggestions about how policy settings can be adjusted to ensure the future success of retailing in Australia.
- 5.2. There is no doubt that the past two years have been some of the toughest times for retailers in recent memory. It is important that this downward trend is reversed, not just for the retail store owners and their employees, but also for the broader Australian economy of which retailing is such an important part. The persistence of a two-speed economy, with retail in the slow-lane, is not in the national interest.
- 5.3. Australian consumers have been well served by their retailers, who are a constantly looking for ways to meet changing shopping trends and ensure that households have access to the retail opportunities they are seeking.
- 5.4. This ability to respond will serve Australian retailers well, especially as the sector becomes increasingly open to international competitive forces. New supply-chain management practices, multiple selling channels and changing store formats are just some of the developments that are already underway and are likely to continue for some time yet.
- 5.5. The successful retailers of the future will be the ones that can best embrace and adapt to these changes.
- 5.6. However, retailers cannot undertake this structural adjustment alone and governments have a role in the process. This involves ensuring that the regulatory environment in which Australian retailers operate is conducive to growth and flexible enough to facilitate and encourage change and improvement.
- 5.7. Australia's leading retailers are important contributors to the Australian community, through both the creation of employment opportunities and the extensive support they provide for the communities in which they operate.
- 5.8. It is in everyone's interest to have a vibrant, sustainable retail sector now and into the future.

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