



The voice of Australia's leading retailers

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Economic Structure and Performance of the Australian Retail Industry – second submission



**Australian National
Retailers Association**

The voice of Australia's leading retailers

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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 Super Cheap Auto Rays Outdoors Boating Camping Fishing Goldencross 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 follow-up 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. ANRA is broadly supportive of the draft report into the *Economic Structure and Performance of the Australian Retail Industry*. Many of the issues raised by ANRA in its initial submission were recognised in the draft report and several of ANRA's recommendations feature in the report's list of draft recommendations.
- 1.2. ANRA endorses all 14 draft recommendations which, if implemented, would create an environment where Australia retailers can more easily meet the changing preferences of consumers. Indeed, without these changes it will be difficult for Australian retailers to compete in this increasingly globalised sector.
- 1.3. In addition to these draft recommendations, ANRA is urging the Productivity Commission to consider including the additional recommendations put forward by ANRA in its first round submission that were not explicitly adopted. This includes a specific recommendation to remove parallel importation restrictions within the Copyright Act, bring forward the removal (or reduction) of customs duties on consumer goods and ensuring that consumers have the same legal protections from directly imported goods as they do when making a purchase from an Australian-based retailer.
- 1.4. Since ANRA's first round submission to this inquiry was lodged the Australian Government has also released details of its carbon tax package. The structure of the tax means that retailers are unlikely to pay the tax directly. Nevertheless, they will have the tax passed on to them through their supply-chain, facing increased costs through a variety of channels such as electricity and wholesale prices. But offshore retailers will not face these higher costs, leaving retailers with another cost to cover that their international competitors can avoid.
- 1.5. ANRA's recommendations can be summarised as:
 1. **Adopt all 14 recommendations featured in the Productivity Commissions draft report. Where State Government co-operation is needed, the Federal Government should examine ways of encouraging take-up of the recommendations through the COAG process and, where necessary, by incentivising reform.**
 2. **The Australian Government creates a mechanism for on-going dialogue and input from the retail sector, either via a Minister for Retail or a permanent industry Advisory Board.**
 3. **The Australian Government should immediately remove Customs Duty from all consumer goods imported into Australia, except clothing and textiles and passenger vehicles.**
 4. **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.**
 5. **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.

- 6. The Australian Government should immediately remove parallel importing restrictions.**
 - 7. 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.**
 - 8. The Australian Government should take steps to ensure that all goods being imported into Australia, including direct purchases by households, meet all applicable Australian safety standards and labelling requirements.**
 - 9. 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.**
- 1.6. ANRA congratulates the Productivity Commission on its draft report and looks forward to working with the Commission on both finalising the report and on encouraging all Australian governments to adopt the final recommendations.

2. Response to Productivity Commission draft recommendations

- 2.1. ANRA endorses all 14 draft recommendations made by the Productivity Commission. This section expands on ANRA's thoughts on these draft recommendations.

Measuring internet activity

- 2.2. Gaining an accurate measure of the size of the internet retail market was problematic when preparing ANRA's submission for this review. Access to reliable and timely information about the size and breadth of online retail shopping will help both policy-makers and retailers plan for the future and better respond to changing consumer demands.

GST and the low value threshold

- 2.3. ANRA welcomes the in-principal support from the Productivity Commission that the GST should be levied on all goods that enter Australia, irrespective of their value.
- 2.4. ANRA also recognises that at this point in time the current costs involved in collecting the GST on low-value imports out-weigh the revenue that would be collected.
- 2.5. As outlined in ANRA's initial submission, however, many other countries have low value thresholds that are significantly below \$1000. This raises the question: if they can do it, why are Australian systems unable to?
- 2.6. ANRA welcomes the Productivity Commission's recommendation to further investigate this anomaly in collection costs and to explore ways that reduce collection costs so that the low value threshold can be lowered in the future.
- 2.7. Implementing the GST review is critical as Christmas 2011 approaches. The Federal Government should not wait for the release of the Productivity Commission's final report and instead should launch the review now and ensure it is completed within the next three months. This would allow the alternate collection methods to be implemented prior to Christmas 2011 and give Australia a low-value threshold more in line with overseas markets and closer to ANRA's initial recommendation of \$100.
- 2.8. A reduction in the low value threshold to levels seen in other jurisdictions would improve the integrity of the tax system and reduce the competitive advantage offshore retailers enjoy at the expense of Australian retailers.

Planning and tenancy reform

- 2.9. Half of the draft report's recommendations related to planning and tenancy reform, which highlights the significantly negative impact that poor planning systems have on retailers.
- 2.10. Many of the recommendations also featured in the Productivity Commission's inquiries into *Performance Benchmarking of Australian Regulation: Planning* which was conducted in 2010 and its 2008 report *The Market for Retail Tenancy Leases in Australia*.

- 2.11. The nature of planning and tenancy legislation in Australia means that the implementation of these recommendations falls within the responsibility of state governments.
- 2.12. The significant focus put on this issue by the Productivity Commission in recent years highlights the importance of state governments immediately implementing these recommendations.

Trading hours

- 2.13. ANRA welcomes the recognition from the Productivity Commission that restrictive trading hour regimes are imposing on retailers trying to compete with online shopping opportunities.
- 2.14. As with the planning recommendations, responsibility for implementing this recommendation falls to the state governments which should do so immediately. It is imperative that this deregulation process is in place by Christmas 2011, which will be a key trading period for the struggling retail sector.

Industrial relations

- 2.15. ANRA welcomes the recognition by the Productivity Commission of the importance of flexibility and enterprise level bargaining in achieving productivity gains.

General regulatory burden, including labelling

- 2.16. ANRA's initial submission to this inquiry covered a range of regulatory distortions and burdens that fall on retailers. The draft report recognised that these regulations can place an unnecessary burden on business, especially where there are differences between state-based regulations and retailers have operations in multiple states.
- 2.17. ANRA has particular concern about the developments in food labelling legislation, which has intensified in recent months. The Federal Government is currently undertaking two major reviews that impact on food labelling – the Blewett Review and the National Food Plan. In addition, several state governments are expanding legislation in this area.
- 2.18. Apart from the additional compliance costs these labelling laws create, the reviews are also being undertaken largely in isolation of each other. This duplication – both within and between levels of government – is a clear case of an unhelpful approach to regulation that is adding an unnecessary burden to retailers. The Federal Government should adopt a single mechanism to review labelling and use the Council of Australian Governments (COAG) process to gather state input, rendering additional state legislation unnecessary.
- 2.19. In addition, these labelling reviews and new laws are not paying sufficient attention to the finite nature of food package – there is only so much space available for labelling on a product. ANRA has consistently urged all levels of government to look at new technology options, such as web-based technology, that could provide additional detailed product information to consumers via a website rather than needing every aspect of a product to be crammed onto a label.

- 2.20. ANRA welcomes the Productivity Commission's recognition of the negative impact this regulatory duplicity has and supports the recommendation that these types of regulations should be reduced or removed when it is clear there is a public benefit to do so.

3. Suggested additional recommendations

- 3.1. As well as endorsing the draft recommendations, ANRA also has a number of suggestions to add to the list of recommendations. The details of many of these were covered in ANRA's initial submission and remain a priority for Australia's leading retailers.

Implementing cross-government recommendations

- 3.2. One of the challenges faced in implementing many of the draft recommendations is that the legislative responsibility for change is with state governments not the Federal Government. This is particularly true for the key areas of trading hours, planning, food labelling and the many regulations covered in Chapter 12 of the draft report.
- 3.3. Consequently, it is important that the recommendations which are state-based are given priority within the COAG agenda to ensure all states fully introduce the recommendations.
- 3.4. There may be scope for the Federal Government to take a similar approach to that done with competition payments to the states during earlier rounds of micro-economic reform in Australia. Rewarding states that act quickly, or penalising those that do not, will help drive the reform agenda and deliver the key changes identified by the Productivity Commission to ensure Australian retail stays competitive.

ANRA suggests all 14 recommendations featured in the Productivity Commission's draft report are adopted. Where State Government co-operation is needed, the Federal Government should examine ways of encouraging take-up of the recommendations through the COAG process and, where necessary, by incentivising change.

A voice within Cabinet

- 3.5. ANRA's initial submission outlined the importance of retail to the Australian economy and that it was critical the sector had a voice within the Federal Cabinet to ensure it was considered during the decision-making process for key policies that impact on the sector.
- 3.6. This could be facilitated through either a Minister for Retail or the establishment of an Advisory Panel, such as the ones that already exist for other sectors such as mining.
- 3.7. The presence of such a mechanism would allow retailers to have input into key national debates, such as the carbon tax. It is often the shop assistants of the nation who are the frontline when there are any price-related policy changes and, as such, they can provide valuable insights for government about likely implementation challenges at the early stage of policy development.

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 or an advisory Retail Panel, similar to the Mining and Resource Panel already established within Government.

Customs Duty

- 3.8. The Productivity Commission's draft report acknowledges customs duty collects considerably less revenue than the GST and that the system is a complex (and thus costly) one to administer, given the many different treatments and rates that apply across a range of duty categories.
- 3.9. One option put forward by the Productivity Commission (although not featured in its list of draft recommendations) is to lift the low value threshold to \$5000 for customs duty, so that some Australian bricks-and-mortar stores can also import consumer goods without facing customs duties – just as online consumers currently do for purchases below \$1000.
- 3.10. This recommendation, however, will not assist larger retailers who import significantly bigger shipments than \$5000 worth of stock.
- 3.11. Raising the threshold to \$5000 may help smaller importers but would still leave Australia's major retailers facing an unfair playing field when trying to compete with overseas retailers or small local retailers.
- 3.12. ANRA continues to argue that the relatively small amount of revenue collected from customs duties on consumer goods (excluding vehicles), the complexity of the customs duty system and the fact that customs duties on consumer goods are being phased out anyway, means the logical step is to bring forward the phasing out process and immediately remove customs duty on all consumer goods imported into Australia (except clothing and textiles and passenger vehicles). This should also apply to clothing and textiles from 2015.

ANRA recommends the Australian Government should immediately remove Customs Duty from all consumer goods imported into Australia, except clothing and textiles and passenger vehicles.

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.

Tax review and carbon tax developments

- 3.13. Broader tax reform, beyond just the GST and customs duty, is a key issue for retailers which featured in ANRA's initial submission. The Productivity Commission acknowledged that it was a factor in explaining price differentials between Australia and retailers in the rest of the world.
- 3.14. As such, ANRA recommended a review into the tax system as it impacts on retailers. But this was not taken up by the Productivity Commission in the draft report.
- 3.15. Since the first round submissions for this inquiry were lodged, the Federal Government has released the details of the carbon tax package. The introduction of a carbon tax on July 1 2012 will add further to the basket of taxes that Australian retailers must pay which are not levied on their international competitors. Australian retailers may not pay the carbon tax directly but they will face higher costs, via both

the supply-chain and increased utility costs. Meanwhile, international online retailers will not face these cost increases, delivering them another competitive advantage over Australian-based retailers.

- 3.16. The Productivity Commission's draft report argued that a review of the impact of the tax system on retailers was not needed because there had recently been a comprehensive review into tax reform in Australia (*Australia's Future Tax System Review*). Although, the Federal Government had not taken up many of the recommendations featured in this review.
- 3.17. ANRA acknowledges both the Henry Review and that the Federal Government is holding a Tax Summit next month, of which ANRA will be a participant.
- 3.18. Businesses are 'tax collectors' with respect to many taxes (e.g. payroll tax and income tax) but retailers are particularly involved in such transactions given their role in the collection of the GST.
- 3.19. Consequently, ANRA continues to believe that the sector should be involved in key discussions around tax, such as the Tax Summit, and that a specific review of the tax burden on retailers is warranted.

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.

Parallel import restrictions

- 3.20. The draft report refers to an earlier recommendation by the Productivity Commission that parallel import restrictions within the Copyright Act (mainly books) should be removed. However, no direct recommendation to do this was made in the draft report.
- 3.21. The Federal Government did not take up the earlier recommendation to remove parallel import restrictions and ANRA believes an explicit recommendation to do this would assist those Australian retailers competing with overseas or local stores that directly ship internationally published books (which are usually cheaper) to Australian consumers.
- 3.22. This reform, together with the removal of customs duty on consumer goods, would go a long way to delivering a level playing field for Australian retailers as they compete with international retailers, who are able to directly deliver many of these products to Australian households without facing the same financial and legislative restrictions.

ANRA recommends the Australian Government should immediately remove any remaining parallel importing restrictions.

Assisting retailers to compete internationally

- 3.23. The draft report discussed the role that Australian retailers have in responding to increased pricing transparency and international competition that the internet has delivered.
- 3.24. ANRA agrees with these comments and understands that much of the survival, or otherwise, of traditional retailers in Australia will depend on their own business decisions. The best performing retailers will always be those that respond to customer's wants and are able to establish reliable and competitively priced supply-chains.
- 3.25. Nevertheless, ANRA still sees a role for Government in working with retailers in this process. Part of that Government role includes efforts aimed at reducing the barriers to competition, discussed extensively in ANRA's initial submission and the Productivity Commission's draft report.
- 3.26. But Government also has a role in helping retailers adapt by providing resources to help them understand the best way to access supply-chains that will allow them to remain competitive. This is no different from the assistance provided by Governments over the years to other sectors such as manufacturing as the sector adjusted to becoming more globally focused.
- 3.27. As such, ANRA calls for Government assistance to help retailers better understand the role that Free Trade Agreements and direct sourcing arrangements can have on their business. This is particularly critical for retailers that may not have the in-house expertise to understand complex Free Trade Agreements or to establish contact directly with manufacturers overseas.

ANRA recommends 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.

Consumer protection

- 3.28. As discussed earlier, ANRA supports the removal of any remaining import restrictions in Australia and understands that retailers need to explore new supply-chain arrangements to meet changing consumer demands and remain competitive. Nevertheless, ANRA does not believe that this should be done at the expense of important consumer protections, such as legal requirements for warning labels and product safety and minimum warranty standards.
- 3.29. ANRA is concerned that international retailers who deliver products directly to Australian consumers are not subject to the same regulatory (and not costless) system that Australian-based retailers are when they bring imported products in to sell in their stores or online. It is possible that many consumers are unaware of these risks when purchasing from overseas sites and would expect products to be as safe as if they had been purchased from a reputable Australian retailer.

- 3.30. International retailers who distribute products directly to Australian households should be subject to the same product standards and warning regimes that goods bought in an Australian store or from an Australian-based online retailer must meet.

ANRA recommends 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.

Retail training

- 3.31. The draft report argued that:

Depending upon the extent that retailers choose to compete on the services they offer rather than the price they charge, there will be greater need to develop a workforce with higher customer service skills and higher productivity. To achieve this employers will need to invest more in training their employees. To get an adequate return on this investment, they will need to retain their employees for longer than they generally do.¹

- 3.32. ANRA agrees with the Productivity Commission's observations about the skills base which will be needed in the retail workforce of the future. However, ANRA continues to argue that this needs to be a tri-partite commitment – from employers, employees and governments – and not just the responsibility of employers. Government financial assistance is particularly important in the early phase of training when employers need to spend relatively larger amounts of time teaching and supervising.

ANRA recommends 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.

¹ Productivity Commission (2011) *Economic Structure and Performance of the Australian Retail Industry*, p. 327

4. Concluding comments

- 4.1. ANRA welcomes the opportunity to have further input into the Productivity Commission's inquiry into the retail sector and largely welcomes the work of the Commission to date.
- 4.2. This second-round submission both endorses the draft recommendations of the Productivity Commission and puts forward additional recommendations that could further add to the inquiry's outcome.
- 4.3. ANRA also looks forward to taking part in the public hearing process later this month.
- 4.4. Importantly, ANRA recognises that this review is only the first step in a major reform process that needs to be undertaken involving all levels of government in Australia. It is hoped that once the review is completed the Federal and State Governments take on-board the recommendations and play their role in ensuring Australian retailers remain competitive in the future.