Australian Retailers ASSOCIATION

Ensuring retail success since 1903

Submission to the Productivity Commission's Inquiry Relative Costs of Doing Business in Australia: Retail Trade Industry

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Productivity Commission 2014 submission

The Australian Retailers Association (ARA) is urging the Government to use the Inquiry Relative Costs of Doing Business in Australia: Retail Trade Industry 2014 to assist retailers in Australia who face an increasingly competitive operating environment. In the last ten years, the structure of the retail sector has shifted and evolved as a result of globalisation, advances in the digital economy and changes to business practice policies (such as employment and tenancy frameworks). In addition, the retail sector has experienced varying economic environments with the Global Financial Crisis (GFC), an inflexible wages system, lack of consumer/business confidence and the high Australian dollar having a significant effect on the performance of the industry and increasing trade exposure from overseas.

The ARA continues to advocate for greater harmonisation across jurisdictions, while not harming competitive federalism being advocated by many State Governments, the cost benefits from standardisation to national retailers are significant.

The ARA offers support, information and representation to over 5,500 member retailers representing over 50,000 retail outlets across every state and territory making the ARA the biggest and most diverse retail industry body in Australia. The ARA works closely with Government and other industry participants to ensure the long-term viability and position of the retail sector as a leading contributor to the Australian economy. The ARA delivers training, tenancy advice, consumer law advice and employment relations advice (registered with the Fair Work Commission) in every state and territory, which makes the ARA the only body undertaking these activities for the retail sector in every state. We believe reform of regulation and reduction in tax and duties, along with a reduction in compliance burden for business and consumers, will see the Australian economy and Australian retailers return to their traditional strength.

Sources: ABS Labour Force, Australia, detailed quarterly 6291.0.55.003; ABS State National Accounts, 5220.0; ABS Count of Australian Businesses, 8165.0

Key issues:

Domestic economic conditions remain soft throughout the economy and global economic recovery is still patchy. The Australian economy appears to be suffering from a lack of confidence, over-regulation and uncompetitive policies which are leading to low productivity and an inefficient tax system. Business profitability has been hit hard by rising cost pressures from wages to rent and confidence remains fragile. Jobs and investment are now at risk across many industries, especially our key trade exposed sectors; of which retail is now one.

The ARA and its members have a strong vision for the retail industry based on free markets and growth, productive and innovative businesses, responsible individual initiative supported by Government where appropriate, but without Government interference where possible.

The ARA is committed to promoting retail as a viable and exciting career choice for young people, and to retaining and developing the highest standards of practice within individuals at all levels of the industry. The ARA is also committed to assisting members to deal with new technologies and a changing trading environment through education and skills training.

In this environment, the Government must look at what it can do to responsibly promote the role of the private sector as the key driver of economic growth, jobs, investment and improved living standards.

Despite much negative media coverage there are a number of successful Australian retailers who, through their success within Australia, are now expanding overseas. Cotton On, Bakers Delight and Forever New are just three examples, with some recent international entrants such as Specsavers growing their specific sectors and establishing manufacturing plants in Australia without any Government support.

The Government has a solid base to build on further growth if it addresses current reckless spending and over-regulation. The economy is holding up under difficult circumstances. The Government's overall financial position, while also under pressure from global influences and weak domestic conditions has weakened through a lack of budgetary control and a lack of support to the private sector.

The Government must support the retail industry through practical actions that lower business costs, raise productivity and improve private sector investment and career growth.

Commitments the ARA want to see include:

- Responsible economic management and expenditure restraint
- No new taxes or increases in existing taxes, with continued reduction in business tax reduction
- Continued regulation reduction and national harmonisation
- Accelerated private infrastructure investment and planning reform
- Commitment to the services sector through Vocational Education Training
- Development of effective employment pathways to the retail sector
- Keep Australia's AAA credit rating
- Industrial relations advocacy to support more flexible employee working hours in the retail sector
- Taxation reform through a broadening of the GST and finally dealing with reducing the low value threshold on GST for imports
- The states to pass on increased GST revenue in tax and duty cuts
- Planning reform and harmonisation
- Support of power infrastructure reforms and development including the removal of the carbon tax to lower utility costs to retailers and consumers
- Development of low cost energy sources
- Support major transport infrastructure development

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These and other initiatives need to be delivered by the Government in the Federal Budget, and stand to benefit Australian retail business and the wider community by raising productivity and improving the prospects for investment, jobs and reforms.

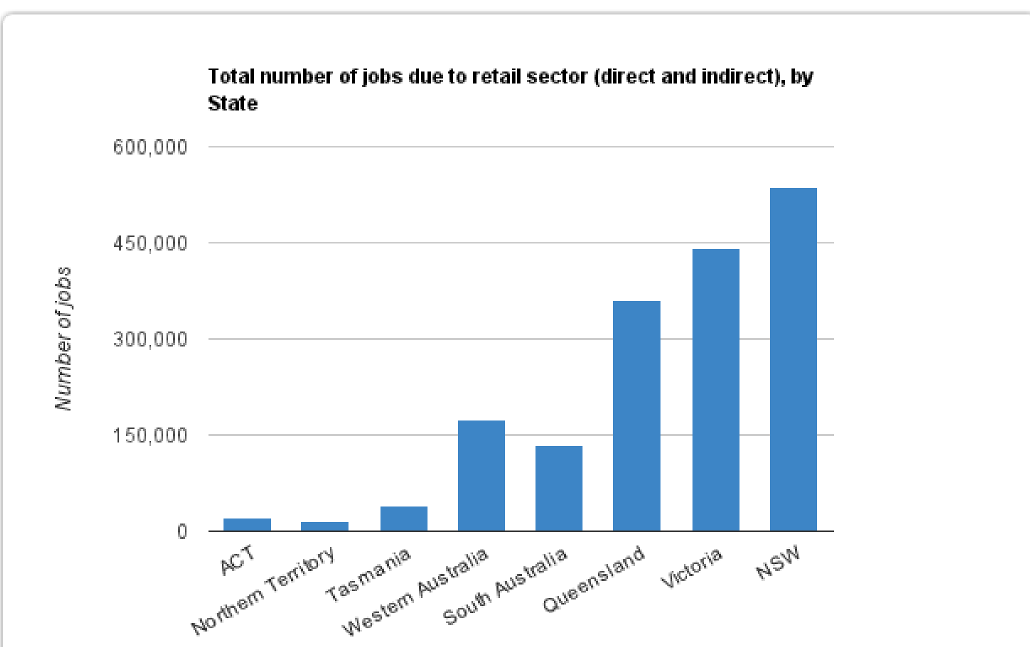
The priorities for retail business in this respect are for the Government to:

- Implement retail tenancy lease reform recommended by the Productivity Commission through COAG and competition policy to create competition and transparency
- Reform the Australian GST Tourist Refund Scheme (TRS) to grow tourist retail sector
- Ensure states give tax and duty relief to consumers and business though a broadening of the GST
- Support skills and employment pathways through VET in the retail and service sector
- Commence immediate reduction of the Low Value Imports Threshold (LVIT) on GST
- Complete planning reform through competition policy and COAG
- Allow more flexible workplace laws and penalty rate changes
- Harmonise state based laws and regulations through compilation policy and COAG including local Government bureaucracy
- Simplify the Superannuation Clearing House process and increase employee count as a definition of use to 100

The rising cost of doing business:

- Rising energy and utility costs
- Skills shortages in the retail sector
- Uncompetitive wages
- Relatively high (by international comparison) interest rates finance access
- Taxation structure

1.7 million Australian jobs because of the retail sector



** Includes direct retail sector data and the impact of retail on other sectors*

Source: ABS Labour Force, Australia, detailed quarterly 6291.0.55.003; ABS State National Accounts, 5220.;, PwC Input-Output model

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The 2011 PC Report – anything changed?

The previous Government did not implement the recommendations in the 2011 PC Report. In particular, while the ABS is now reporting on online shopping, the low value threshold has not been abolished or reduced.

Planning and zoning issues in some states have improved, as have retail trading hours, but more work could still be done in these areas. Several state governments, including Queensland, Victoria and NSW, are looking at retail tenancy issues at the moment, but we are as yet unsure about what changes, if any, will be made in retail tenancy.

The Victorian Government so far has been the only major Government to try and address productivity issues through planning law changes to facilitate lower cost retail space for retailers.

Tax reform

The ARA recommends the Government find a mechanism to ensure or force the largest overseas online retailers to register for GST and further reduce the threshold to as low as $20 with the eventual goal that all GST is collected on tangible and intangible products purchased from overseas moving to zero as soon as practicable.

Overall, the ARA supports broader tax reform which include;

- A lighter tax burden on business and individuals to drive stronger economic growth, more jobs and stronger government revenues
- Application of the GST on Low Value Imports under $1000 with the view of a long term application level of zero dollars
- A broadening of the GST to facilitate the abolition of inefficient state and federal taxes
- A reduction in company tax rates
- Abolition of payroll tax
- Reform of capital gains tax to ensure that small business owners are not unfairly disadvantaged on the sale of the family home, which is often a business owner's main form of superannuation and source of security in retirement.

Policy principles

Australia needs a tax system that supports the achievement of agreed economic and social principles. Australia's competitiveness should be assisted, not harmed, by the tax system.

Tax revenue should be adequate to meet all elected Governments reasonable expenditure needs, consistent with the exercise of fiscal responsibility principles. The tax system should be such that all taxpayers feel confident and satisfied in complying with it.

Support for a root and branch review of the tax system to include the GST with a view to abolish inefficient taxes.

A sustainable tax structure will only be achieved through an integrated package of reform across all significant commonwealth and state tax bases in the form of a balanced package covering consumption, income and assets.

Policy objectives

- Equity – there should be fairness in the distribution of resources between high and low income people as well as similar tax burdens for taxpayers with similar resources

- Economic efficiency – taxation should impact neutrally on the economy and commercial decisions must not be skewed by tax considerations. The tax system should improve the competitiveness of Australia by encouraging productive investment, risk taking, economic growth and attracting capital and skilled labour
- Adequacy – tax systems should raise sufficient revenue for public expenditure needs, be sustainable in the long run and be consistent with fiscal responsibility
- Simplicity – taxpayers being able to clearly understand and meet their obligations
- Transparency – taxpayers should understand how and when they are paying tax and how much tax they are paying. Hidden taxes should be minimised
- Limit costs – compliance and collection costs should be minimised
- Limit evasion and avoidance – there should be minimum incentive and potential for evasion and avoidance of taxation
- Consistency – tax policy should be internally reliable and consistent with broader Government policies
- Flexibility – the tax system should be able to respond to developments in the economy and society, for example demographic changes, financial innovation, globalisation and the internet
- Public perception – there should be the widest possible public support for the tax system
- While changes in the early 2000s to Australia's taxation regime have improved equity, sustainability and efficiency, there is still much more room for improvement.

Based on the tax design principles above, the main reasons for further reform of Australia's tax system include:

- Improving the efficiency and international competitiveness of the Australian economy
- Continuing Australia's strong growth and productivity results
- Ensuring Australia can meet long-term challenges, particularly demographic changes, in the most cost-effective way
- Promoting innovation, risk taking and entrepreneurship
- Encouraging investment in human capital, for example through education and training
- Encouraging skilled migration and the retention of skilled people
- Reducing tax avoidance and evasion, to improve the perceived and actual fairness of the tax system.

Retail Data

Direct impact of retail on Australian economy, 2009-10

Employment at end of June	1.2 million
Wages and salaries	$36.0 billion
Sales and service income	**$355.3 billion**
Total income	$358.2 billion
Total Expenses	**$341.9 billion**
Operating profit before tax	$18.9 billion
Earnings before interest tax depreciation and amortisation	**$21.7 billion**
Industry Value Added	$63.6 billion

Source: ABS Australian Industry, 2009-10, 8155.0

Low Value Imports Threshold on GST

The ARA welcomed Government plans outlining the undertaking of a business case to lower the LVIT which would enable collection of GST on parcels below $1000, as well as from overseas suppliers.

The ARA congratulated State Treasurers on the initiative led by NSW ex-treasurer (now NSW Premier) Mike Baird, who called for a reduction in the LVIT to $30, and looks forward to a post-budget immediate reduction in the threshold.

Australia is losing around $1 billion in GST revenue because of the LVIT giving overseas business a tax advantage. Lowering the GST threshold on imported goods must happen swiftly if Australian retailers are to be put on a level playing field with their online overseas counterparts, who currently have the distinct advantage of escaping GST when sending their goods to Australia.

State Governments are also missing out on revenue due to the tax collection loophole created by not lowering the threshold, and this is obviously a big missed opportunity for state treasuries.

The ARA supports the Government's plans to reduce the GST threshold, which falls into line with recommendations from the Low Value Parcel Processing Taskforce's final report, encouraging this reduction to be implemented quickly to immense economic benefit.

International online retailers would easily be able to adjust to the new requirements, given they would be on par with how Australian based retailers (and with all overseas jurisdictions either operating a very low threshold or moving to a zero threshold) stand to be a tax-free haven for international online retailers if this change is not made.

The ARA has urged the Federal Government to give retailers the opportunity to grow the Australian economy and create employment opportunities by quickly removing unnecessary red tape costs.

This proposal has been talked through with both the current and previous Federal Governments for the last two years. It can be achieved through a simple lodgement of a Business Activity Statement (BAS) just as Australian businesses are required to do. By targeting just the large overseas online retailers to start off with, GST would be collected at little cost to government, taking away the long held argument that the tax is too expensive to collect. Indeed State Governments, who are the recipients for the GST and are actually the ones who pay for the government collection costs for the tax have indicated broad support for such a system.

The LVT actually operates as a 'reverse tariff' by raising the prices of local goods and lowering the prices of imported goods, and this makes no economic sense - particularly when it means less money is available for hospitals, schools and other community services.

One needs to remember the previous government had the Productivity Commission report on the rapid online changes occurring within the retail sector, concluding "*There are strong in-principle grounds for the low value threshold (LVT) exemption for GST and duty on imported goods to be lowered significantly, to promote tax neutrality with domestic sales.*"

Thousands of jobs are at risk if closing the GST loophole is not made a priority. This issue is costing jobs in the retail sector as people are buying overseas where GST is not applied. All retailers ask for is a level playing field to compete on and at a time when our country is in financial crisis, this would seem to be a natural righting of a tax loophole that hasn't kept up with the global digital revolution.

By leaving offshore online purchases tax free, Australia is only hurting itself. We are sending profits to foreign companies, jobs to foreign workers, and tax revenue to a foreign government.

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If urgent action is not taken, a further 33,000 Jobs will be lost by 2015 in the discretionary retail sector and states will forego $2.453 billion on GST revenue by 2015.

The previous Labor government sought to justify its own inaction on the issue by arguing that the cost of collecting GST on online shopping would outweigh the additional revenue it brought in. However, this was contradicted last year by Labor's own Low Value Parcel Processing Taskforce, which found the incremental revenue generated by scrapping the tax break would more than cover the cost of collection.

Mr Michael Evans was commissioned by Treasury to prepare a report for the GST Distribution Review Panel. Mr Evans looked at methods to collect GST on imported goods and services. As would seem obvious to the layperson the key recommendation was to collect the GST at the point of purchase.

How do you do this? The simplest option requires overseas suppliers to register to collect GST and lodge a BAS just as every Australian retailer does now, from your corner shoe store to your major department store. This is a cheap option to implement because every package does not need to be checked and assessed. It can collect GST on intangible goods such as downloads, an Australian musician currently has to charge GST if they sell their music online, their overseas counterpart does not.

Why would major foreign companies register? Major international companies, generally, try to comply with local tax law. If they don't they will face being pursued by the Australian Tax Office (ATO), reputational harm and issues around their goods being targeted by border authorities for not paying tax. All indications are this method could capture the vast majority of lost revenue, in discussions over the last year with Government officials it has become clear for some categories of retail nearly all international purchases come from as little as a handful of major overseas retails, by simply getting them to collect GST for those categories virtually all GST could be collected on those product steams such as books.

Australia has clearly been behind the eight ball on this issue. The opportunity is there for the government to restore a level playing field - the government must stop what is active discrimination against Australian retailers who are being taxed in areas their overseas counterparts are allowed to avoid.

While we were pleased to see the latest Ernst and Young (E&Y) report confirmed Government employment data and highlighted the fact that the retail sector will lead job growth through to 2020, we are also concerned that if the Government doesn't hastily remove obstructions and red tape burdens, this predicted job growth and overall job growth in the economy will be put at risk.

Retail has a real opportunity for jobs and economic growth over the next five years, however, regulatory costs have significantly stifled that growth in the last five years. The only way we will achieve our potential is to remove costs and restrictions – beginning with the Low Value Threshold (LVT) GST in relation to goods under $1000.

Clearly, as indicated in the E&Y report, overseas businesses are getting away with paying no tax while Australian retailers must pay tax – and this is costing us Australian jobs. This significant cost to employment will continue unless urgently addressed.

The ARA represents both large and small independent retailers, including Australian online retailers, and our members see the impacts of overseas businesses avoiding taxes every day.

Ernst and Young estimates that more than 93,000 jobs have already been foregone to the growth of online retailing, and by 2020, more than 142,000 traditional retail jobs will have been lost. It is time to act to ensure these jobs can be transitioned within Australia.

Based on the Ernst and Young forecasts, when the LVT GST is abolished, between $10 billion and $16.8 billion will move back to Australian online and traditional retailers from overseas businesses – a figure simply too large to ignore!

Infrastructure

The ARA calls for enhanced investment in logistics and infrastructure to lift productivity and efficiency. We must respond to changes in demography in both urban and regional Australia. The real cost of living pressure and business costs are measurable by retail businesses, proving the urgent need to improve supply chain flows.

Policy principles

Infrastructure is vital to Australia, now and in the future. We must continuously improve our national infrastructure if we are to:

- Improve Australia's economic performance and achieve economic growth
- Maintain and enhance our international competitiveness

Policy objectives

- Continuous improvement of infrastructure
- Encourage technological change in all areas related to infrastructure
- Ensure the private sector plays a major role in financing, designing, building, operating and maintaining infrastructure
- Support transport development which enhances customer and business transport links to key retail hubs
- Remove legislative and taxation obstacles to increase private sector activity
- Ensure that all infrastructure projects are subject to a proper cost-benefit analysis
- Make certain that equitable and sustainable risk allocation models are developed for each project undertaken by the private sector.

Budget & fiscal responsibility by Governments

- Return the Federal Budget to surplus over time ensuring the economy continues to grow, to take pressure off borrowings and interest rates and ensure that the government has the means to execute a fiscal response to a future financial crisis
- Efficient delivery of public and community services by government and an annual two percent reduction of spending by government on government for the next five years
- Growth in government expenditure is unsustainable and must be addressed.

Respond to flexibility, productivity & participation needs of the modern workplace

- The ideal workplace relations system being one which is fair to both employers and employees, recognises that they share substantial common interests and seeks to operate with a framework of fair and economically responsible standards and behaviours
- Make targeted investment in training and skills development a high a priority including effective employment pathways
- Change the Fair Work Act where problems arise, as they become apparent and as the system evolves.

The Fair Work Commission (FWC) needs to be empowered to effect change within the current award structure. FWC must consider whether modern awards:

- Achieve the modern awards objective

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- Are operating effectively, without anomalies or technical problems arising from the award modernisation process
- Allow greater flexibility in workplace arrangements
- Are taking into account cost pressures and flexibility needs for Australian retailers operating in a globally competitive environment.

Objectives

FWC must be obliged to review all modern awards on a regular basis:

- A review will be a vitally important for the retail industry to improve both productivity and sustainability for the Australian retail industry. The effective management of labour costs has become more important than ever before for the industry in an environment where sales are stagnant and the consumer has developed an expectation of globally competitive pricing
- The recognition of the difficulties faced by retailers working under an award structure that imposes higher labour costs at times when consumers want to shop is causing major distortions in the ability for retailers to trade competitively. This is becoming increasingly problematic as Sunday continues to establish itself as an important trading day with many retailers not finding it economically viable to trade on Sundays
- ARA will be pushing for amendments to the Fair Work legislation and changes to FWC that will allow retailers to more effectively manage their labour costs and provide greater flexibility via FWC
- ARA will, over the course of this Government, be actively seeking the views of members and engaging with the broader retail industry to identify key common concerns and develop a strategy for ensuring FWC conducts a comprehensive review of these concerns
- As Australia's peak employer association for the retail industry, the ARA will be taking a lead role in the process to achieve a positive outcome for retailers.

Fair, productive & creative workplaces

Australia's 140,000 retailers employ over 1.2 million Australians and are Australia's largest private employer.

Modern 21st century workplaces increasingly reflect the joint enterprise and common goals of business and the workforce, employers and employees.

The ARA believes in a safety net of standards of behaviour and norms that underpin rights and responsibilities in the workplace, but which also do not detract from individual or enterprise flexibility in workplace agreements.

Above all, the ARA supports enterprises large and small and their employees and contractors to tailor remuneration and working arrangements in a way that provides the best chance for the business and its employees to fully develop and prosper.

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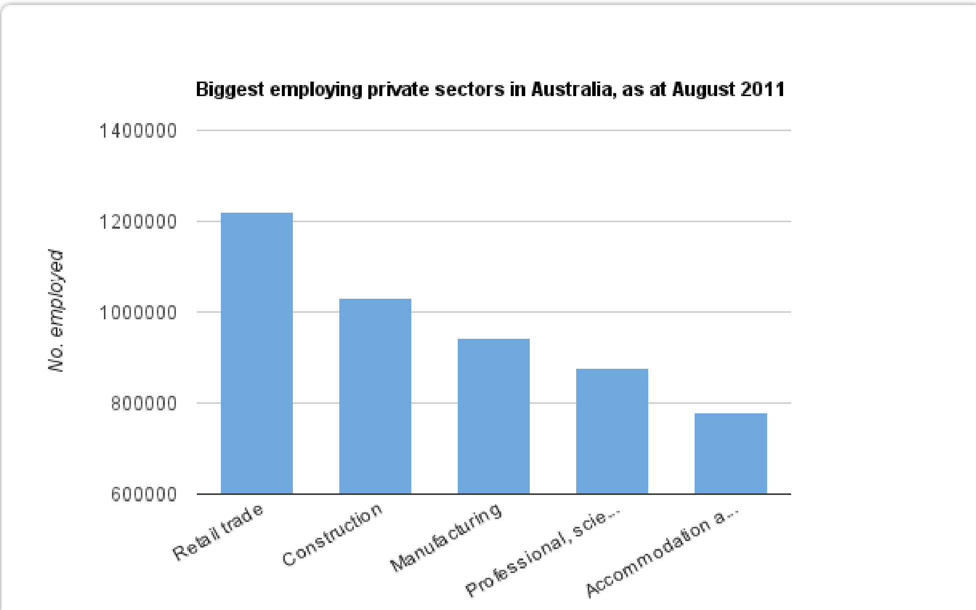
Retail is responsible for directly employing 1.2 million people from a diverse range of careers including customer service, butchers, bakers, pharmacists, hairdressers, mechanics, finance, information technology, communications, human resources and management.

Over 1 million Australians work in retail



Source: ABS Australian Industry, 2009-10, 8155.0

Economics

The ARA calls for recognition by government that long term business planning requires investment certainty, the minimisation of risk, low taxation, flexible wages systems, stability and reliable cheap sources of energy supply.

A strong, globally competitive economy which provides businesses large and small with the commercial freedom to take calculated risks, invest and secure productive rewards that benefits business owners and managers, their families, employees and consumers is desirable.

The retail economy has fundamentally transformed since the 1980s and is now deeply integrated in regional and global trade.

Our economy is comprised of over 140,000 retail enterprises, most of which are small businesses, but some are amongst the largest and most successful corporations in the world.

ARA's policy department is committed to making sure that the environment for doing business in Australia gives our private sector and business sector a competitive and productive edge.

We believe in economic reform and the leadership that Government and the private sector business organisations can provide in facilitating reform, as well as community support for the reform effort. The ARA is particularly concerned to ensure that Australia's tax and regulatory systems support private entrepreneurship.

The ARA is keen to see the private sector continuously invest in physical infrastructure and human capital that can add to economic growth as well as community and social wellbeing.

The ARA continues to be committed to support our private sector and our Governments to restore the health of the financial and capital markets. The ARA also seeks to ensure the flow of capital to Australian businesses large and small can fuel a new wave of growth and economic prosperity.

Policy objectives

- The SME retail sector to have a voice in the framing of national economic policy
- Making the case for economic reform and the adoption of policies that promote commercial freedom, entrepreneurship and private sector investment
- A tax system that creates incentives for the private sector to flourish, improve economic growth and increase employment
- Reduce the size and interference of government including local government bureaucracy
- Freeing up finance availability
- Removing multijurisdictional compliance through harmonisation, utilising competition policy and COAG forums with each Minister delivering tangible outcomes in the next term of parliament.

Carbon Tax

Although the economics and science guiding policy makers on the issue of carbon pollution is developing, and sometimes called into question, the ARA believes there is enough evidence to suggest that industry, Governments and the community must continue to understand and systematically address this issue.

The Carbon Tax is an inefficient tax which compounds throughout the supply chain, has no proven environmental benefit and a deeply negative competitive impact on the Australian economy.

The ARA has always supported the Coalition's removal of this tax and calls on either the current or new Senate to support it removal as soon as practicable.

There is more than enough evidence from our members that the removal would see not only an immediate drop in business costs but a boost in consumer spending.

Policy principles:

- Although there are uncertainties in the science of climate change, there is sufficient reason to be concerned that increasing levels of greenhouse gases lead to interference with the world's climate system. Australia should contribute to global action by reducing its greenhouse gas emissions commensurate with global action
- Active participation of developing countries in the reduction of greenhouse gas emissions, particularly through commitments under global agreements, is essential to effectively address the global climate change problem and to minimise distortions to the Australian economy
- Australia should reverse the introduction of a carbon tax. The setting of a 'tax price' that is equitable and efficient is extremely difficult
- Despite any uncertainty regarding the potential environmental consequences of climate change, emphasis needs to be placed on the development of adaptation strategies
- Government and the private sector have to ensure that the whole Australian community fully understands the magnitude of the task we face in reducing greenhouse gas emissions and all of the issues and implications of greenhouse policies.

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Policy objectives:

The adoption of a principled comprehensive greenhouse policy framework must reinforce the following national policy objectives and priorities with the removal of the Carbon Tax:

- Australian jobs are not sacrificed
- Competitiveness of efficient Australian industries is maintained
- The ARA believes that as a responsible global citizen, Australia should assume a fair share of the burden to reduce greenhouse gas emissions
- The social and economic consequences of different policy options for addressing the enhanced greenhouse effect achieving a comprehensive, effective and fair climate change response also requires that it be based on the principle that the benefits accrued exceed the cost of measures
- Measures to only be implemented when there is a reasonable expectation they will achieve their intended outcome, in order to ensure that the policy outcomes are strongly focussed on efficiency
- Neutrality of treatment between activities irrespective of whether they are undertaken by governments, businesses or consumers and regardless of sector or location
- Involvement in policy making of those who will have to put greenhouse measures into effect, and in particular extensive consultation with industry.

Restoration of capital to business still suffering Global Financial Crisis effects

The ARA believes that although there is increased competition among financial institutions, small businesses need to remain well supervised, governed and managed to ensure that they can access finance to expand their business activities. This is essential to economic growth and business confidence.

The ARA remains deeply concerned regarding competition issues relating the Australian banking sector, following the departure of overseas competition and takeovers immediately following the GFC.

There is clear evidence following the post GFC Senate Banking Inquiry that Australian banking competition has fallen to 30 year lows, with some sections of the lending market now hovering around the 80 and 90 percent mark within the existing banking oligopoly.

There are now many international cases of Governments directly intervening to create additional credit availability for SME businesses that Australia could follow as an example.

Competition policy & participation in the nation's economic affairs by small and medium retailers

The ARA would like to see:

- Rewarding personal entrepreneurship to maximise job creation and wealth for families and local communities
- An increase in the numbers of self-employed people from one in five to one in four
- Reduce red tape and compliance burden on all business, with a particular effort to assist the small and medium enterprise (SME) retail sector.

Policy framework

Government policies must recognise the need for the different capacities of smaller enterprises.

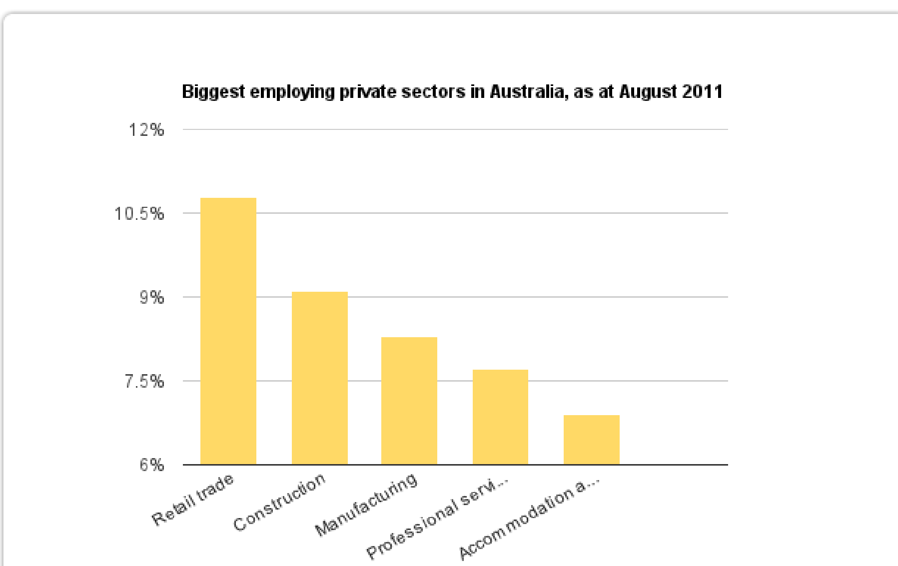
Small businesses are not just miniature versions of larger enterprises, and not all small businesses necessarily want to expand. The competitive and entrepreneurial spirit of small business is the vital underpinning of Australia's economic future as the level of growth in larger corporations has steadied, with restructuring more in favour of medium and smaller enterprises and the exploitation of specialist skills and niche markets.

Small business policy should then be primarily directed at those characteristics of small businesses which are usually or typically different from medium and large businesses.

Policy objectives

- Comprehensive taxation reform which reduces compliance costs, complexity and uncertainty for small business
- Access to and cost of finance for small business to promote long term growth in the sector
- Continued deregulation of labour relations while at the same time promoting better workplace practices in areas of skills, occupational health and safety
- Extension of competition policy principles, including competitive neutrality to ensure government business enterprises compete fairly with the private sector
- Increased take-up of new communications technologies by small business including electronic commerce and better engagement so SMEs use high speed broadband
- Small business involvement in telecommunications policy development through input of research and commercial analysis into government and industry forums
- Greater access to and increased involvement of small business in government purchasing
- Red tape reduction target which is benchmarked
- Simplification of superannuation payment and collection
- Simplification of superannuation and paid parental leave administration.

Almost 140,000 retail businesses in Australia



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Education and training policies

Schools

ARA supports a smaller federal bureaucracy for school education, and decentralisation of delivery to the states and schools. That said, there is a continuing role for the national development of curriculum and the need for the Federal Government to take a more active role in school to work (directly or via further education) transitions. The Federal Government has more financial stake in successful transitions due to the significant cost of funding welfare benefits should the student not successfully transition into further training or work. Specifically related to this, the Federal Government should:

- Take greater leadership of vocational training in schools by increasing the dialogue and engagement between schools and industry, and focus on improving the quality and significant inefficiencies created by poor pathways between VETiS and further VET qualifications.
- Improve the embedding of employability skills in the school curriculum.
- Encourage (and if necessary incentivise) the states to introduce minimum requirements for literacy and numeracy to standards required in the workplace, using international benchmarks.
- Continue current programs for youth connections (addressing disengaged early school leavers) and school partnership brokers under a redefined and more focused initiative School to Work Transitions. This focus maintains a direct connection between the prevention of poor outcomes and the cost of failure (welfare).

The *National Trade Cadetships* program should be discontinued. Industry does not support cadetships or any related curriculum work in Years 11 and 12; instead effort should be directed to improving VET in schools outcomes as outlined above. We do support the finalisation and implementation of the work studies elective in years 9 and 10.

Vocational training

The ARA supports a review of the efficiency and effectiveness of the vocational training system currently being conducted by the Minister for Industry. However, although there are specific issues within each part of the education and training system (early childhood, schools, vocational training, and higher education) it is important that there is greater clarity of roles between the Commonwealth and the states across the system not just within each component. Pathways and recognition of quality outcomes should be improved between the sectors so as to achieve efficiency of public funding spend. In other words, any changes made to vocational education and training (VET) should be done so within a holistic approach to the total system.

Funding in VET specifically should be focused on high quality; national qualifications delivered by industry engaged providers, including work integrated learning models such as apprenticeships.

There is no doubt that a more effective national and partnership skills agreement with the states and territories is needed. This will deliver medium to long term outcomes in vocational training. In the meantime, overall investment should not be reduced, and indeed more targeted effort should be placed on increasing apprenticeships particularly for school to work transitions and the disadvantaged groups so as to save on welfare support. Also, the priority is to focus on improving quality across the system, and in turn improving pathways and recognition of prior learning so that students do not have to duplicate learning which is resulting in wasted public funds.

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Traineeships

The policies of the previous Government, most specifically with the removal of non-trades apprenticeship incentives and mature age trade apprenticeship wage subsidies, have had a significant negative impact on apprenticeship numbers. The major impact to commencements occurred after July 2012 when the 2012/13 Budget and MYEFO cuts took effect. Commencements in apprenticeships and traineeships across all qualification levels for the last six months of each calendar year across selected years:

1999 88,127
2002 125,672
2005 119,686
2010 148,387
2011 147,842
2012 99,484 - a staggering 33% fall in 12 months.

The March and June quarter 2013 actual figures indicate a continuation of the decline. The commencement numbers for "technicians and trade workers" was 32,300 in the March quarter 2013 compared with 35,500 in the corresponding quarter in 2012; total commencements excluding those figures (largely non-trades) are 36,400 March quarter 2013 compared with 67,000 – so around half as many. The September quarter trend figures are indicating an upturn but the actual figures are not yet available, while the slight upturn in non-trades is nowhere near back to trend. The trade figures which show some growth are not reflected by industry feedback with the exception of construction trades, where employers are getting in ahead of wage increases effective from January 2014.

It is critically important that there is no further removal of apprenticeship incentives until a comprehensive review with industry has taken place which discusses how to ensure the incentives are working to change employer behaviour to offer jobs for apprentices and trainees. This review should look at restoring some incentives, taking into account the cost of training imposed by the states and the need to boost youth employment in key areas of entry level occupations and courses.

The Government should not be tempted to concentrate support on trades' apprenticeships and skills needs list occupations. This does not reflect the broader economic and productivity benefits of structured training across the economy. The economic benefit of work-integrated learning systems such as traineeships can be just as positive for services sectors such as retail. Also, the loss of tens of thousands of non-trades apprenticeship commencements is a blow to youth employment and a cost to the federal government in increasing unemployment benefits.

National Workforce Development Fund

This program provides funds on a co-contribution basis directly to employers to support up-skilling using national qualifications. ARA and its members strongly support the continuation of the federal National Workforce Development Fund, although it should be more efficiently managed directly by the department, not via the Australian Workforce and Productivity Agency or the Industry Skills Councils. ISC's role should be limited to encouraging applications and AWPA's role limited to setting priorities for funding. This recommended process improvement should significantly reduce the red tape around the fund and improving responsiveness.

VET Architecture

ARA members support the basic underpinning of the structure of the VET system being the development of training packages that are reviewed to reflect changes in occupations and skill needs. This role is the most important task of Industry Skills Councils. There is some variation in industry support for their ISCs, but little variation in the need for an industry driven body to oversee the development and review of training packages.

For a system which is often termed “industry-driven”, the overseer of the standards, being the National Skills and Standards Council has a membership that is not sufficiently reflective of industry. There is scope for significant efficiency improvement in examining the role of the ISCs, NSSC and the Australian Workforce and Productivity Agency. The outcomes of such a review should reinforce the necessity for the vocational system to be genuinely “industry driven” – not just in name.

In relation to the quality regulator, ARA maintains its policy position that there should be no imperative for it to be self-funding. Fees to training providers should be reflective of the market benefit, but not directly linked to cost of the regulator. ARA continues to support the regulator being truly national, and hopes that the Victorian and Western Australian Government can be encouraged to be part of a single system.

Career development

The Federal Government should revisit the important issues in the released but not funded National Career Development Strategy. The significant spend on workforce development should be complemented by an effective spend on career development, to ensure:

- Students are undertaking courses with a strong understanding of career opportunities and the demands of the occupation
- The right skills are deployed to the right place at the right time
- Better coordination between all of the parts of Government that currently provide careers advice, support and funding
- Industry leadership and professionalism in careers advice.

Removal of employer incentive payments for existing workers traineeships

The removal of the employer incentive payments has impacted dramatically for enrolments on traineeships, which impacts on young workers in up-skilling and improving career prospects.

The ARA recognizes the Government needs to work within current budgetary restraints but there needs to be a refocusing of allocation in alignment with younger workers. Although we believe more funding would assist the industry, the prioritising of the funding to the right areas is most important to ensure a successful retail industry.

- Retail is the largest private employer, second to aged care sector in employment in Australia and particularly in regional areas is the mainstay of the community.
- Constant need for employees as many large retailers particularly supermarkets have staff turnover rates annually of 20/30% always requiring skilled staff
- Flexibility of retail i.e. varied shifts, part time employment, full time employment can adequately meet most people’s requirements

Employment

The economic and fiscal policy context for this important priority is increasing workforce participation to improve productivity and reduce welfare dependency. The review of employment services due for 1 July 2015 implementation is critically important to get right, with the starting position being that the vast majority of the job market does not require government involvement and job seekers and employers are self-sufficient.

That said, with only 5 to 7 percent of employers currently using the service, there is not sufficient engagement to deliver economies of scale and choice of jobs and job seekers, and there is still market failure in that some industries find it difficult to source labour and many job seekers are finding it difficult to get jobs. To deliver more effective outcomes, the services need to be more employer focused, and integrated with the services such as for people with disability.

The machinery of Government changes after the election which moved disability employment services to the Social Services department should be reversed as housing an employment service of any type in social services is the opposite of what is needed. Employment services need to be employer-facing, not supply side driven. It is inefficient to split the employment services role between two departments, particularly given that more people with disability are serviced through Job Services Australia than the specialised service. Public perception is also very important and by placing Disability Employment Services, which has the same objective as Job Services Australia, in another department may reduce future employer engagement of people with disability into the workforce. Employment services need to be employer facing, not supply side driven.

For employment services generally, the ARA recommends a two tier approach – a more employer focused and responsive “JSA-lite” which could potentially be licensed, and a more client focused “job readiness” range of services linked in to training and other “wrap around services” to meet the needs of clients which have multiple challenges (current stream 3 and 4 and many in the disability area).

A reduction of the red-tape burden on business

Ensure that well-designed regulation and effective functioning of the federation supports the seamless operation of a national economy and business efficiency.

The ARA had welcomed the commitment and benchmarking undertaken by the Victorian Government to reduce red tape and calls on the Federal Government along with other State Governments to follow that example.

The ARA supports work already underway in some states and see the mechanism of competition policy as a means of driving this critical reform.

Every new regulation, tax, law and public servant increases compliance burden for business and the ARA supports the fundamental principle of small Government which removes laws and regulation which create unnecessary burden for business

From discussions and interactions with members along with our work, retailers are clearly identifying the size and bureaucracy levels within local Government as creating significant delays and compliance for business.

That is efficient, cost effective & fair policy objectives

- A net benefit approach to new and existing regulation or laws

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- An emphasis on the shift from a detailed and prescriptive “input-based” approach to a broader “output-oriented” approach. Businesses should be given flexibility in meeting the aims of regulations rather than simply having to meet set obligations
- Appropriate accountability to ensure that essential objectives of regulation are achieved without unduly restricting or impacting on business
- Regulatory structure that involves adequate consultation, assessment of the alternatives to regulation, accurate cost benefit analysis and the monitoring of the performance of regulatory agencies
- A comprehensive and continuous review approach across jurisdictions led by a Commission level body at the Commonwealth level with greatly increased resources compared to the Office of Regulation Review in the Productivity Commission
- Ensuring that the regulatory decision-making process is transparent leads to fair outcomes and involves consultation processes that are accessible and responsive to business and the community
- New regulatory culture where there is an understanding of business processes and the burden created by regulatory compliance and a commitment to providing a “business-friendly” operating environment
- Use of competition policy and COAG to force reform
- Removal of overlap and duplication particularly resulting from separate Commonwealth and state regulation
- Red tape target with benchmarks for achieving of targets.

The results of a recent ARA/ACCI report shows 70% of businesses had their red tape burden increased in the last 12 months, and more than 55% of all businesses indicated they had no capacity to pass the cost of regulation on to consumers. Two thirds of those surveyed indicated that regulatory requirements had a negative impact on their business, and a shocking 40% of businesses reported that regulatory requirements had prevented them from making changes to grow their business.

Looking at the different areas of compliance affecting retailers, it was interesting to note that *Safety and Workers Compensation* is the most complex area of compliance for retailers (55.8 %). This was followed by *Employee Wages, Conditions and Superannuation* (51.4%) and *Tax Compliance Obligations* (47.5%). Almost one quarter of businesses (23%) spent between $10,001 to $50,000 on compliance management, with 41% of respondents spending up to five hours per week complying with government regulatory requirements.

Since the previous Labor Government, the ARA has long been fighting the carbon tax on behalf of our members, as this tax has significantly increased costs for retailers. After speaking with our bakery retail members for example, we are aware that carbon tax related costs to these retailers have been in excess of $20,000 p.a.

The retail sector shows real promise as the jobs driver for the economy over the next five years, but in order to achieve this, we must reduce costs and burden on retailers. Growth in the retail sector over the next 5 years is estimated to grow at 8.9% (AWPRA report).

The ARA congratulates the government on their first steps to reducing burden, but the bulk of the work is still in front of them. We look forward to seeing real change in the red tape, tax and compliance arena’s in 2014.

Counterfeit product

Globally and here in Australia, counterfeiting is a significant problem, affecting brand owners and consumers across all industries. Although the significant negative impact of counterfeiting has long been known, Australia's anti-counterfeiting laws have simply not kept pace with the problem. Indeed, the flow of fake goods into Australia, and their sale in our markets, continues unabated.

Our main objectives regarding law reform in the area of counterfeit goods are:

- Improved border control measures to identify and halt the importation of counterfeits
- Removal of the "personal use" exemption for importation of counterfeit goods under the *Trade Marks Act 1995* (Cth)
- Institution of a "no counterfeits" declaration on passenger arrival cards used for entry into Australia
- Increased public awareness of the impact of counterfeit products
- Clarification regarding the right of citizens and companies to act as "private prosecutors" in criminal cases involving counterfeit products.

At the time of publication of this policy paper, the ARA along with members and stakeholders such as the Australian Sporting Goods Association are undertaking research work to identify issues and needed measures in greater detail.

The value of counterfeit products intercepted in Australia reached an all-time high last year, with the Australian Customs and Border Protection Service seizing more than 700,000 counterfeit products with a total estimated value of $48.5m (based on the equivalent value of genuine goods). Globally, counterfeits are estimated to account for about two percent of world trade, amounting to $272bn, according to the Organisation for Economic Cooperation and Development. Meanwhile, the International Chamber of Commerce has higher estimates, saying global counterfeit trade accounts for five to seven percent of world trade and is worth around $600bn."[1]

Of course, that only accounts for customs' seizures – clearly there are significant amounts of counterfeit goods that still make it into the country. And that doesn't even begin to look at the number of one-off counterfeit items that are purchased online from overseas-based websites by individuals convinced they are getting a good deal, when in fact they are simply being ripped-off by clever counterfeiters.

According to international research by Mark Monitor (part of Thomson Reuters) "one in five bargain hunters in the U.S. and Europe mistakenly shopped on e-commerce sites selling counterfeit goods while looking for deals online. Deal seekers outnumbered consumers seeking fakes at the rate of 20 to 1."[2]

We can assume these statistics apply fairly equally to Australian consumers.

While the recent *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* legislative changes are welcome, Australian law has not kept up with the influx of counterfeit goods or the new and sophisticated ways counterfeiters are marketing their goods to Australian consumers.

The purchase of counterfeit goods results in a likely loss of a sale of similar legitimate goods, creating an indirect cost for Australian retailers. This cost to retailers (not to mention the potential danger some counterfeit goods pose to

[1] http://www.choice.com.au/reviews-and-tests/money/shopping-and-legal/shopping/Counterfeit-goods.aspx#ixzz30Q5EEG5b
[2] https://www.markmonitor.com/pressreleases/2012/pr121119.php

consumers), could be ameliorated by the Federal Government by improving anti-counterfeiting activities as described in the recommendations below.

GST Tourist Refund Scheme initiative

Over the past ten years, retail and tourism industry groups within Australia have indicated their support for enhancements to tourism shopping arrangements in Australia. Central to these calls is reform to the current government controlled Tourist Refund Scheme (TRS). Australia currently lags behind many other countries around the world, where private providers operate a more efficient TRS and actively promote the service as a key offering to international visitors.

The introduction of a private provider platform will enable innovations that can enhance Australia as a tourism shopping destination and help drive up overall spend by international visitors to Australia. Furthermore, a private provider platform will enable a more streamlined experience for travellers at the border and enhance the experience for travellers at our vital international gateways.

Given the strain placed by the current economic climate on the tourism and retail sectors, this will only benefit the sector.

We see this as an opportunity to leverage the full potential of tax-free shopping to make Australia an attractive shopping destination for overseas visitors. This initiative represents a tangible step towards increasing the yield by international visitors whilst in Australia.

This would also allow Australia to better compete with our Asia-Pacific neighbours, who currently enjoy the benefits of private providers marketing local shopping opportunities. Expert private providers have an incentive to market countries as an international shopping destination in a way that a government-run scheme cannot do.

Below are our key recommendations to the current scheme that are being proposed:

Recommendation 1:
That policy makers adopt as policy, a competitive open-market model for GST refunds for departing travellers under which private providers (like Global Blue) may provide tourist refunds under the Tourist Refund Scheme (TRS).

Recommendation 2:
Policy makers adopt as policy a digital TRS system, similar to the Singapore model, to improve customer service, enhance fraud prevention and create operational and head count savings for the Australian Customs and Border Protection Service (Customs).

Recommendation 3:
Policy makers also examine the potential cost savings to be derived from outsourcing the export verification compliance function of customs to an independent service provider (as occurs in at least one overseas country).

Retail tenancy and planning reform

The dependency on securing tenancies within shopping centres poses a significant structural challenge for the ongoing viability of the retail sector. The oligopolistic nature of shopping centre ownership and a retail tenancy regime which is skewed in favour of these large-scale landlords both present an inherent disadvantage to Australian domestic bricks and mortar retailers in terms of equitable competition.

In practice, while there may appear to be a market of competing shopping centre owners, these are in fact shared ventures where centres may be 25 or 50 percent joint-owned by consortium. The sharing of turnover figures by landlords, relevant to individual retailers, leading to greater inequity in the marketplace for retailers attempting to negotiate with these consortium landlords, has become one of the industry's most significant issues.

The ARA has agreed with the overall intent of Productivity Commission reports that all the current national Tenancy Working Group projects overseen by COAG must achieve a more equal framework for retailers negotiating leases; however this needs real Federal Government support to drive change. The ARA does recognise some State Governments have identified transparency of information and level playing field issues and commends those governments for taking action to rectify problems.

There are four distinct issues retailers within shopping centres are currently facing in relation to retail tenancies and ARA would see as needing to be addressed.

Objectives

In addition to the base rental cost, significant additional rental expenditure is imposed through "turnover rent" whereby, built into the rental agreement, the landlord is entitled to a percentage of takings in addition to the minimum rent.

A retailer conducting business in a rental premise has little long-term certainty. Significant costs associated with set-up and relocation is heavily leveraged at the point of re-negotiation. Due to the standard terms of a lease, which is usually five or seven years, a retailer has no security and can be told to leave the premises for the simple reason of "not fitting" with the centre's image, notwithstanding the investment into the retail space. Retailers are subject to the perceived threat that an alternative tenant is prepared to pay more for the same tenancy.

- The ARA believes there should be a first and last right of refusal by a sitting tenant on any rental offering;
- The ARA seeks to require that a sitting tenant must be offered both first and last right of refusal to release the premises prior to the landlord executing a lease for another tenant. We believe that such a mechanism will force the landlord to meet the real market value for the demised premises and not take advantage of a veiled threat or misrepresentation of the true facts as to an alternative tenant for the tenancy. We also believe this mechanism will create an environment conducive to bargaining in good faith, fair disclosure and transparent undertakings;
- The ARA also see this mechanism as being a solution to the problem experienced by a retailer whereby a sitting tenant effectively gives up a large percentage of goodwill of the business to the landlord (via increased rent) as a defence to the threat that a third party will take over the lease at a higher rent without having to purchase the goodwill of the existing business;
- Abuse of the "turnover rent" provisions by landlords where they are able to determine rent increases which are geared within what a retailer "can afford to pay" rather than a common and transparent market rate mechanism thanks to accrued data provided under the turnover rent clauses needs removing;
- The structure of such a term is usually based around financial requirement within the lease to pay a percentage of turnover rent as an additional rent component. Almost without fail, this financial requirement to pay turnover rent is set at such an unrealistic level of turnover which would most likely never be achievable by the tenant;
- The ARA believes the retailer's monthly turnover figures should be reported by the tenant to a third party aggregator, and not directly to the landlord. These figures can then be advised from the third party to the shopping centre on an aggregated category basis, rather than individual figures being reported to the landlord directly which would allow landlords access to the statistics they require to run a centre and retailers a level playing field. An exception could apply if the rent paid by the retailer was based solely as a percentage of tenants' turnover figures;
- In the period after the current lease term is expired, but prior to a new lease being agreed to, the tenant is regarded as being the occupant month-to-month under a "lease hold over prevision" period. If, and when, a new lease is signed at a different rate, the retailer is obliged to pay back the difference and this is obviously an unbudgeted and unexpected financial burden to the individual retailers.

For these reasons the ARA would require these changes to protect tenants' turnover and any other commercial in-confidence information which could impact on negotiations with landlords.

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Occupancy costs and rents

The make-up of the Australian Retail market is based around location of premises with a diverse mix of formats ranging from single building outlets through to highly sophisticated Super Regional Shopping Centres.

With an estimated 290,000* (plus) retail leases making up the bulk of the retail market, the reliance on leased premises is the dominant commercial structure (noting that the minority of retail businesses that own their premises should also factor the capital invested as a cost of the retail business as well). (*reference: PC Report No.43 31/03/2008)

Of this structure, the majority of retailers seek to operate in shopping centre environments being seen as the preferred vehicle to merchandise their products and it is safe to assume the consumer prefers this format as well. Therefore, the relationship between lessor and lessee and the commercial considerations derived from retail leases becomes an important component of securing appropriate premises to conduct a retail business.

The consideration, being rentals which comprise varying formats be it on a net or gross rental lease basis, for this submission we will refer to the industry norms and make comparisons on occupancy cost ratios based on gross rents (net rent + outgoings).

Of course, over any given comparison period there will be increases in the dollar value costs and variances to other matrix such as premises size and turnover; however the one constant ratio for measurement of the relationship of real estate to retail outcomes is occupancy cost. Occupancy cost ration is the per centum the rental (gross rent) represents to retail sales (all figures exclude GST).

Although there is an enormous disparity between the retailer and Retail Property Sector as to what are appropriate occupancy cost ratios, the essence of this report is to relate the impacts of occupancy costs and rents to the cost of conducting a retail business.

To ensure the measures can be interpreted by all industry stakeholders, we have referenced the benchmarking surveys of the Australian Shopping Centre Council which has been undertaken by Urbis since 1992.

The following table is a single year comparison between the years 2009/10 and 2010/11 which is in line with the previous commission's inquiry referenced in the Issues Paper April 2014 as (PC 2011) into the industry.

The comparison is an average of regional shopping centres nationally for all retail speciality stores excluding electrical, sound and computer retailers as a more indicative representation of the core speciality retailer market.

		All Regional Centres			**Top 10 Regional Centres**			**Other Regional Centres**		
		2010/11 Results	Same Centre % Change		2010/11 Results	Same Centre % Change		2010/11 Results	Same Centre % Change	
Specialty Shops (Retail - Excluding Electrical/Sound/Computers)										
Floorspace	sq.m	21,076	-0.8%		32,807	+0.2%		19,006	-1.6%	
Turnover	$'000	196,916	+2.0%		336,804	+5.2%		176,792	+0.5%	
Turnover Productivity	$psm	9,343	+2.8%		10,266	+5.0%		9,302	+2.1%	
Occupancy Costs5	$psm	1,723	+5.2%		1,883	+7.8%		1,657	+4.2%	
Occupancy Cost Ratio	%	18.4%	+40	bps	18.3%	+50	bps	17.8%	+40	bps

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With minimal change in the floor space in this period these comparisons are considered on a direct like-for-like basis.

For all regional centres we note that although turnover increased by 2%, the increases in rental per sqm well exceeded this at 5.2% - resulting in an increase in the occupancy cost ratio (the measure of the cost of doing business related to the premises/real estate) of 40bps.

And for the top 10 regional centres, noting the positive sales growth of 5.2%, the resulting increases in rent at 7.8% the occupancy cost ratio increased by 50bps.

The issue highlighted here is that these increases are reflective of only one year and the market continues to experience ever increases occupancy costs and which overburdening the costs of conducting a retail business. This trend is likely to continue with further external pressures on retail sales growth from an oversupply of lettable area, overseas competition entering the market and significant growth in on line (non-bricks and mortar) sales.

Coupled with the drive by retail property owners and managers to consistently achieve above inflation growth on investment returns and spiralling operating expenses, it is no wonder that when comparing the top 10 international highest retail rentals, three of Australia’s capital cities rank as the attached report evidences.

Sydney, Melbourne and Brisbane have all made the global top 10 list for cities with the most expensive prime retail rents according to new research from CBRE. However, Hong Kong continues to rank as the world’s most expensive global retail market, recording prime rents nearly 150 percent higher than New York and more than 400 percent higher than London, Paris and Sydney.

CBRE’s quarterly survey (Q1 2013), which tracks the top 10 most expensive prime global retail markets, reveals that strong demand from international retailers, coupled with a modest supply pipeline, has led to record-high prime rental rates. Leading the pack, Hong Kong continues to rank in a rental class distinctly above its global peers, recording prime rates during Q1 2013 at US$4,328 per square foot per annum.

Prime Retail Rent Ranking, Ranking by US$ per Sq. Ft. per Annum Basis

Markets	Q1 2013 US$ Per Sq Ft Per Annum	Q1 2013 € Per Sq M Per Annum	Q1 2013 Local Currency Rent/ Measurement
Hong Kong	$4,328	€36,351	HK$ 2,800 psf pm
New York	$2,970	€24,944	US$ 2,970 psf pa
London	$1,053	€8,843	£ 1,100 ITZA pa
Paris	$1,050	€8,820	€ 14,000 ITZA pa
Sydney	$1,018	€8,549	AUS$ 10,525 psm pa
Tokyo	$895	€7,519	JPY 250,000 per tsubo pm
Melbourne	$851	€7,148	AUS$ 8,800 psm pa
Zurich	$822	€6,905	CHF 8,400 psm pa
Brisbane	$739	€6,209	AUS$ 7,645 psm pa
Moscow	$739	€6,203	US$ 7,950 psm pa

Source: CBRE Research, Q1 2013.

While markets such as Hong Kong, New York, London and Paris did not record increases in prime rents this quarter, these cities have exhibited resilience due to international retailers continued longer-term strategic expansion strategies which feature a distinct preference for prime space in the best locations in these markets.

The Government has already addressed the core for the base reasons underlying the outcomes of such disproportionate rental and occupancy cost ratios and growth from the Productivity Commission Report number 43 (31/03/2008) *The Market for Retail Tenancy Leases in Australia.*

The majority of the recommendations centre on improving the transparency in the retail lease/property market and repairing the imbalance in access for information for retailers.

Unfortunately, we must report that it would appear that NONE of these recommendations have been implemented by COAG, who were charged with the responsibility of same.

Since this time industry stakeholders have resolved that there is a ground swell need for a national approach to improve the information imbalance either through a national (common form) Lessor Lease Disclosure Statement in a registrable form or a National Lease Register.

Planning

The Council of Australian Governments (COAG) should be the recommended body used to facilitate a national approach which will create a greater availability of retail space in retail activity areas driven by the Federal Government.

The ARA supports any move to create a greater competitive environment allowing retail development to be a positive outcome, and the ARA would like to see a mechanism facilitated by the Federal Government through COAG to achieve this outcome. The ARA would also like to note with the Budget of new State Governments there has been real change implemented by at least one major Government, with others hopefully following suit.

- Take into consideration the social and economic impacts of “dead centres,” when local government undertakes assessment of new “out-of-centre” planning proposals. The ARA would support this if part of that assessment would be to still allow rejuvenation projects in existing retail areas. It is also important to consider “out-of-centre” developments which are beneficial to the community such as outlying areas;
- Costs be awarded against vexatious planning appeals would, in all reason, reduce compliance costs, time and funding costs for retail developments. As with a number of these matters, the Commonwealth would need to look at ways of facilitating this move through mechanisms such as COAG;
- ARA will support moves which reduce unnecessary regulatory development costs;
- With improving technology, local Government could undertake large parts of the approval processes electronically using methods such as process application interfaces meaning as an application went through an applicant could instantly see what was wrong before trying to continue and address the issue immediately. This would limit the appeals process, improve the ability of council staff to understand the commercial implications of any delays and gain an understanding of how significant any delays can be for developers and retail tenants.

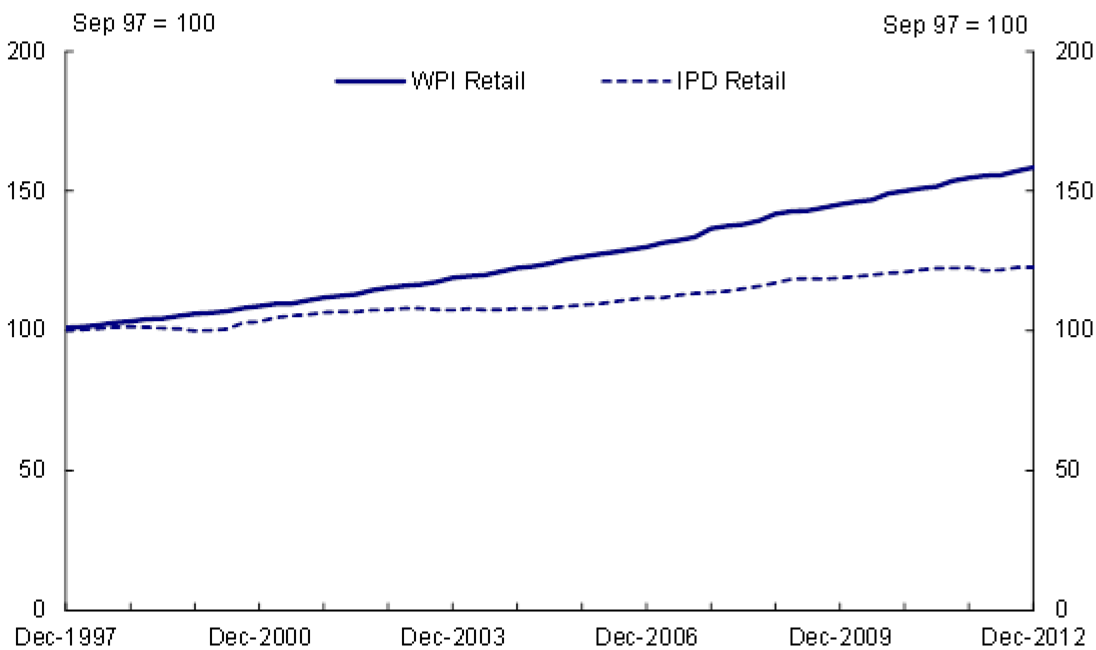
WAGES GROWTH

The ARA strongly recommends minimum wage or junior wage increases are realistic and reasonable, taking into consideration economic weak trading conditions, current and imminent wage bill increases for industries undergoing structural adjustment and underemployment levels.

The Fair Work Commission (FWC) decisions has been generous (see wages to earnings chat) given the faltering economy and slow pace of growth across key sectors, rising unemployment, weak jobs market, global risks, rising business costs, increased global competition.

Payments introduced to compensate for the impact of the carbon tax

Wages have been outstripping selling prices in the retail industry for an extended period.



Economic growth has tracked below trend over the past year and is expected to remain below trend in the year ahead. That disappointing growth outcome has seen labour market conditions continue to deteriorate. The Australian economy is facing a difficult period of transition in the near term. It is expected a sharp downturn in resource sector investment will weigh heavily on growth and it remains unclear the extent to which expansion in other sectors of the economy will be sufficient to offset the drag on growth.

Labour market conditions are weak and the job opportunities for the low paid are diminished as a consequence. The modest pace of employment growth has been driven by below trend growth and weakness in activity in the non-mining sectors of the economy. The unemployment rate has continued to rise over the past year and is forecast by Treasury to worsen. Underemployment has also increased and remains particularly acute in award reliant industries. There are in excess of 1.6 million people in the labour market without work or without sufficient hours of work.

The ARA has also collated wages growth information from research partner Roy Morgan Research as part of our submission to indicate real wages movements over the last 13 years.

What data supplied via Roy Morgan Research clearly shows is that much of the myth built around wages in the retail sector is due to the proportion of employees working within the sector because of lifestyle and flexible work hours through part-time and casual employment. If measured as a full time employee, wages within the sector reflect a very different story.

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Chart showing the steady increase in wages over the last 14 years: ARA/Roy Morgan Research

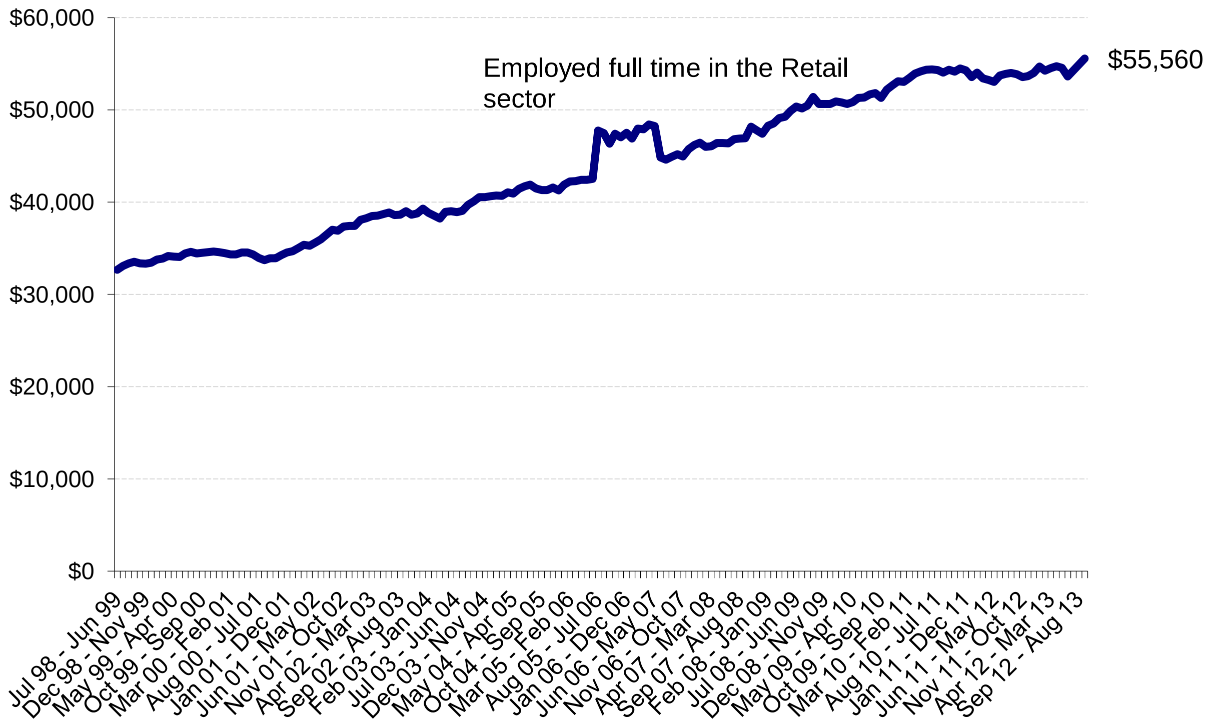
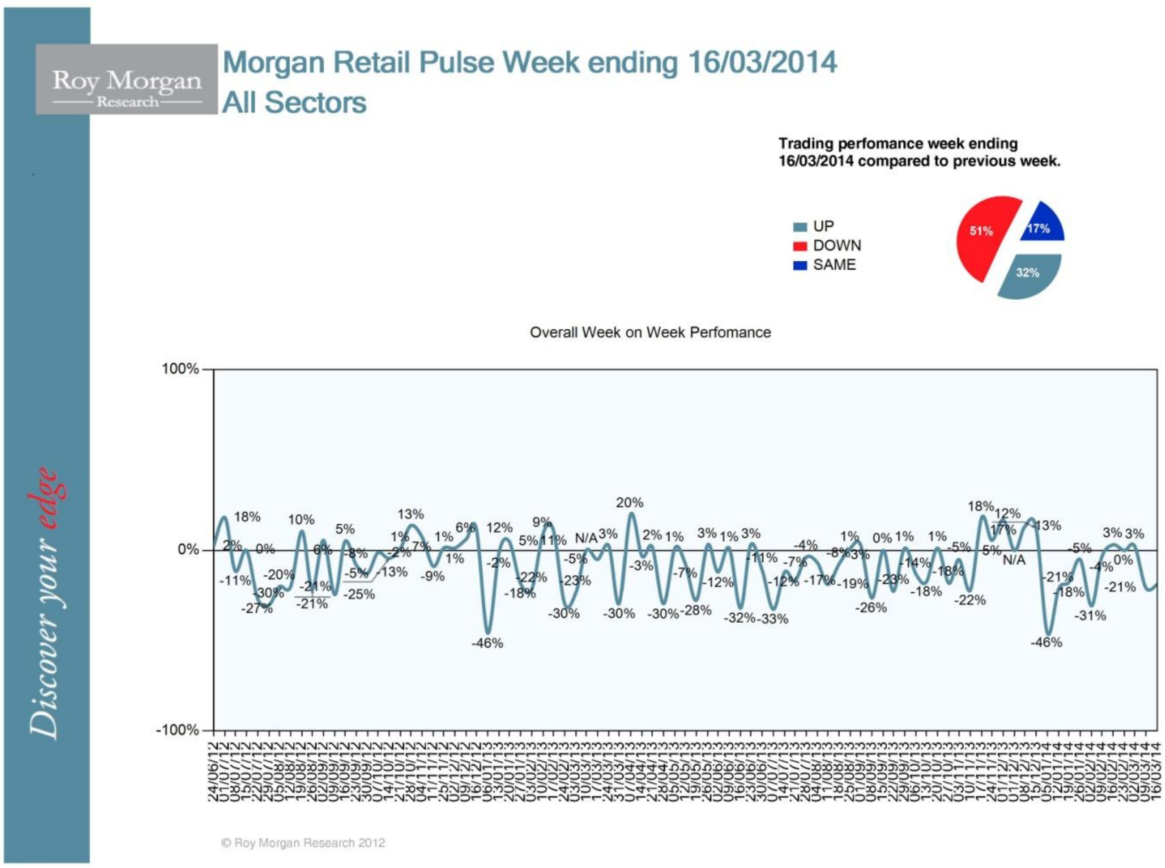


Chart showing the steady increase in wages over the last 14 years: ARA/Roy Morgan Research

RETAIL TRADING CONDITIONS

The minimum wage should happen within a context of continuing historically difficult trading conditions with flat or negative employment growth.

Consumer confidence remains in the doldrums by any measure, personal savings in these conditions are still at record levels as consumers brace for the perceived worse. Sales growth, where it has happened has been minimal. We have seen recent significant deflation in consumer prices such as electronics being driven by deflationary pressure and overseas competition.



The ARA/Roy Morgan regular retail pulse reading continues to show weak retail business sentiment with the very few weeks continually reading in the positive over the last six months.

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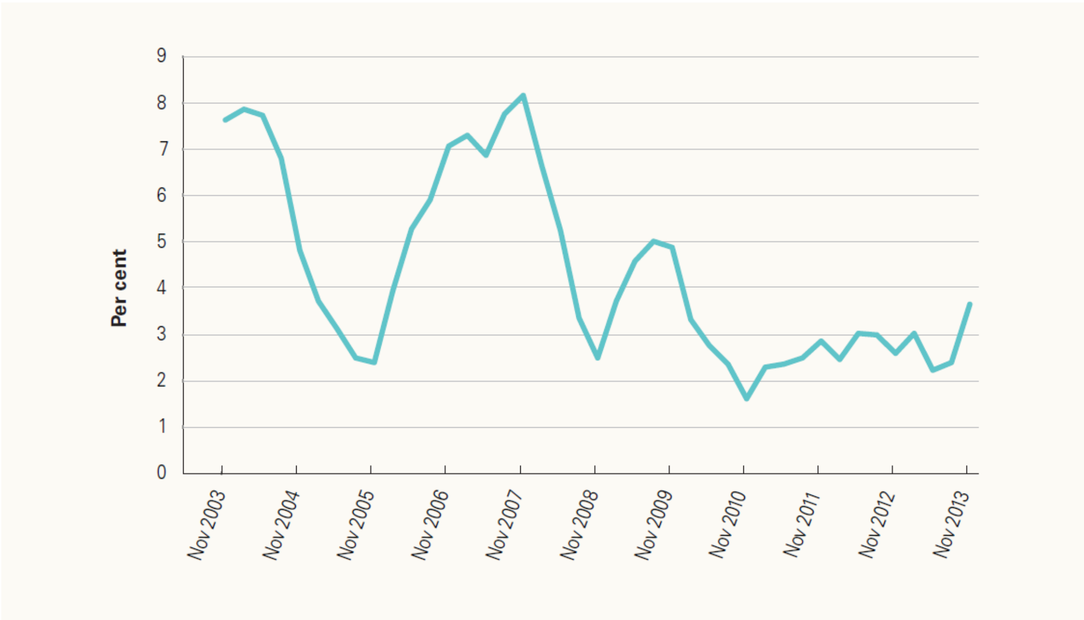
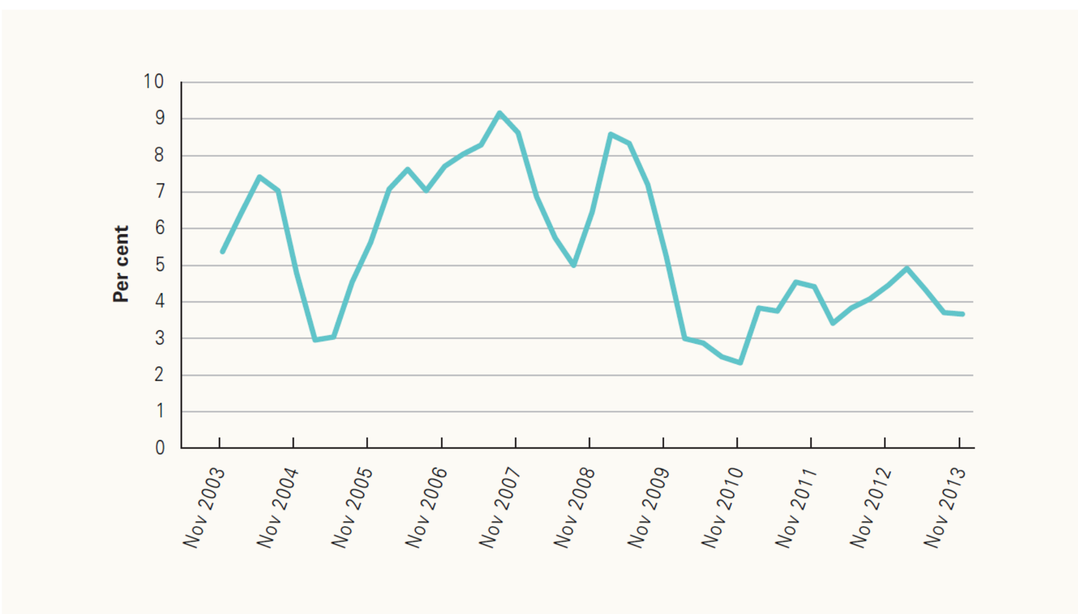


Note: Data excludes cafes, restaurants and takeaway food services.
Source: ABS, *Retail trade*, cat. no. 8501.0.

Change in food retail sales (annual percentage change—current prices), November 2003 to November 2013, trend data



Source: ABS, *Retail trade*, cat. no. 8501.0.

Payments systems and reform

The ARA along with the Australian Merchant Payments Forum (AMPF) represents the interests of merchants within the important payments sector of the economy. It is critical that the perspective of merchants is considered in addition to those of schemes, issuers, acquirers and cardholders. Merchants make significant investments in payments infrastructure and are essential components of the payments system. The Reserve Bank of Australia (RBA) has been a global leader in reform of payments systems, particularly card payments systems, but Australia is now beginning to fall behind other jurisdictions and around the world, both in scope of reforms and in the quantum of some reforms.

The RBA has traditionally been a reluctant regulator, and this has seen some areas of payments now causing merchants costs that have been thrust on them due to an unforseen shift of costs that, in the merchant's opinion, they should not have had to bear. It is therefore the view of the ARA, and the merchants that it represents, that although the current government is removing unwanted red tape, there are areas within payments and card processing that will require the existing regulation to be broadened and enhanced to ensure that future processing costs will not have unintended consequences of putting higher and more processing costs onto the merchant.

Merchants, however, believe that innovation in cards and payments is essential and should be properly supported by appropriate governance and regulatory structure. Innovation should not be mandated on to merchants without prior consultation. Mandated innovations are of particular concern to merchants as these are generally compulsory, and frequently have been forced on merchants either without merchant involvement in the process at all or without sufficient consultation.

ARA Position

- Retail changes are required in relation to co-branded or companion cards issued by financial institutions;
- All schemes need to be brought under regulation, not just the four party schemes that are currently regulated;
- Merchants should have the choice of routing for all payment transactions including, but not limited to, AMEX, Scheme Debit and contactless transactions;
- As internet transactions increase (currently at 6% of total retail – expected to grow to 12% of retail sales by 2020) and technology changes rapidly from cards to mobile devices to new POS equipment, merchants will need to invest heavily in new technology (both hardware and software). Therefore, any costs to merchants need to be controlled; otherwise the merchant will continue to pay for the technology as well as face increased costs from both new payment schemes and new innovations by existing schemes;
- As bricks and mortar retailers move to PIN on credit (August 2014 onward) there will be necessity for increased security in the online area as fraud will shift from bricks and mortar retailing to the online retail space;
- Retail trading conditions are currently improving but unfortunately these increases are not being seen across all sectors of the retail industry. Retailers are still struggling from the post GFC and are unable to accept costs of innovation and increases in Merchant Service Fees (MSF) that they have been experiencing from new entrants into the payment space.

THE SUBMISSION

REGULATION OF ALL SCHEMES

The Reserve Bank Act (1959) and the RBA's Payment System Board (PSB) must ensure that within its limitation of power, it must exercise its powers to ensure that in the opinion of the board it will contribute to control risk within the financial system, promote competition in the market for payment systems and ensure consistency within the overall stability of the financial payment system.

In 2004 the RBA decided to regulate both Visa and MasterCard (regulation of four party schemes), however, as American Express and Diners Club were three party schemes, they did not fall under the same regulation. The regulation was in relation to interchange and pricing, and as such has caused a change in the payments landscape, bringing unintended consequences to the payments system in Australia with major changes to the card payment landscape.

As both Visa and MasterCard were regulated under the four party schemes, merchants were able to process transactions via their acquirer with a fair and reasonable Merchant Service Fee (MSF) and merchants essentially decided if they would/would not accept payments via American Express (AMEX) and Diners. Many merchants declined to accept AMEX and Diners as the MSF was often four to five times the rate of Visa and MasterCard. With increased issuing of co-branded or companion cards it is difficult for retailers not to accept these cards as consumers expect retailers to accept most card payment types.

The ARA does not believe that at present, under the current regulation of the Australian Payment System, there is a level playing field. We strongly believe that not all payment providers are treated equally by the Australian regulatory system, which should encourage and promote an efficient competitive market for payment transactions.

Under the Payment System Regulation (Act) 1998 the RBA has power to designate payment systems and has the ability to set and enforce standards and access for designated payment systems. As noted above, in 2001 the RBA designated/regulated the four party schemes, being both MasterCard and Visa, however they chose not to regulate the three party schemes of both AMEX and diners Club which were left out of the regulatory environment.

The ARA has completed anecdotal research with its members, and the results have shown that depending upon the type of retailer involved, they will change the type of payment method used - from cash to tap and go to charge cards, however, the one consistent result was that there has been a far increased usage of three party scheme cards in all retailers where these cards are accepted.

In 2003 following on from the regulation of the four party schemes, AMEX entered into arrangements with the major commercial banks to issue co-branded or companion cards. These co-branded or companion cards are issued alongside existing Visa or MasterCard credit cards products. As these cards have a much higher MSF than both Visa and MasterCard, which AMEX charges and the retailer pays for, it provides the issuing bank an incentive to issues these cards alongside the co-branded or companion cards, therefore allowing these cards to provide greater reward points for spending particularly when compared to the Visa or MasterCard product.

In the view of the ARA, these co-branded or companion cards are now being issued as a four party scheme card and must be regulated and designated under the <50 basis cap as a four party scheme card - the same way as Visa and MasterCard are regulated and designated under a four party payment scheme.

When researching for this submission – the ARA spoke anecdotally with retailers and we have been advised that use of American Express cards has increased from approximately 13% to 18% over the last four years. The ARA is prepared to conduct a full survey of members to provide a more comprehensive view on card use, please advise us if you would like the ARA to look into developing a thorough member survey.

Via AMEX global network services (GNS) the issuing banks in Australia are highly incentivised to issue these co-branded or companion cards and now act as an acquirer for these cards. The ARA understands that currently these companion or co-branded cards represent more than 35% of the AMEX market globally (refer to American Express Company 2011 Annual report). The companion or co-branded cards are extremely strong in Australia and may well represent more than the 35% of the Australian AMEX market.

The ARA believes that as new payments systems are developed, particularly as new entrants develop new technology in the digital technology and internet payment space, these cards will give undue pressure to merchants - unless they are regulated by the RBA. The regulation should encompass interchange fees/MSF that can be charged to merchants, and these new schemes must be regulated to ensure that there is a competitive market place consistent with the overall stability of the financial system, as well as ensure merchants do not suffer from unintended consequences in the payment transaction space. Many of the new entrants in the payments area are neither price regulated nor are there regulations restricting it from having a “no surcharge” rule.

Due to the competitive nature of retail and due to the increased volume of co-branded or companion bank issued cards, merchants are unable to refuse acceptance of these cards, as the major merchants accept these cards. For the independent SME retailer as well as the major chains, any impediment or barrier to the consumer by trying to steer the consumer away from using these co-branded or companion cards will result in the consumer remembering the experience, and when next purchasing, they will look to a merchant that doesn’t steer by surcharging and accepts their preferred method of payment.

The new entrants into the payment system are able to decide their own pricing model and they are able to choose if they wish to allow surcharging by the merchant, however, both of the schemes Visa and MasterCard are regulated to ensure that merchants rightfully are not charged more than a reasonable MSF. It is therefore only right that all participants in the payments system must be treated fairly and equally. Regulations need to be broadened to include three party schemes (AMEX and Diners) and the existing regulated four party schemes (Visa and MasterCard), as well as new and developing entrants into the payment space.

Merchants should have the choice of routing co-branded or companion cards directly to the issuing bank instead of AMEX. For all practicable purposes, these companion cards are the same as the original Visa or MasterCard, and are linked to the same account and issued by the issuers on their own card platforms - they do not require any processing or routing via AMEX. Routing via AMAEX only adds costs and generates an additional revenue stream for card issuers and AMEX and additional points to the cardholder, without any value add to the payment functionally or process. If AMEX wants to have information on the purchasing of the co-branded or companion cards, then the issuers should send a file with the detail to AMEX at AMEX’s own cost.

FUNDING OF INNOVATION IN PAYMENTS

Merchants are concerned about the costs associated with innovation. An example of innovation costs being when eftpos introduced the new interchange fees - retailers understand in the case of eftpos that the changes were necessary to ensure that eftpos remained as a true low cost scheme to compete with the existing card schemes. According to eftpos, the increased scheme fees were introduced to allow issuers to invest in new innovations, such as contactless cards, and although this change is laudable it should also be noted that moves to contactless cards requires investment by merchants in both new equipment at POS and that new interchange fees mean that merchants, unlike the issuing bank, have less money to invest in a process which will now cost them more.

As technology changes rapidly from cards to mobile devices to new POS equipment, merchants will need to invest heavily in new technology, both hardware and software. Therefore, any costs to merchants need to be controlled. The ARA believes this is why structural changes need to be made to prevent the mandating of higher costs on merchants without reasonable consultation with the wider merchant community.

Transaction Routing

Merchants have for many years accepted many types of cards that are introduced into the payments market place, invariably the cost of acceptance is one that is "thrust upon" them rather than consultation with the merchant to establish if they are prepared or willing to accept these costs. An example where costs to merchants have been "forced" upon them include merchant service fees on scheme debit cards which could be routed either via the eftpos network (pressing savings) or via the Visa and MasterCard scheme network by pressing the credit button. Some merchants, particularly in the high discretionary spend, would prefer that the consumer pressed the saving button where the transaction MSF would be in the area of 7c to 14c per transaction. Equally for a merchant with low value and a high number of large volume transactions, the merchant may prefer to have the credit button pressed, as the MSF may well be at a more acceptable level.

Following on from the lead of Woolworths, who via owning their own switch simply turned off the ability for a customer to use the credit button when a scheme debit card was presented, a number of merchants have informed the ARA that they had been advised by their merchant acquirer that the acquirer is unable or unwilling to program the terminal to turn off the credit button so that the transaction is routed via the eftpos network.

As an example: A merchant sells goods on an average ticket price of $85:00 who has an eftpos fee of 14c per transaction including GST using the savings button. If the same merchant processes a sale via the Visa or MasterCard scheme, and the MSF for the scheme fee is 0.79 inc GST, the MSF for the transaction is .67C (this is the rate that the ARA has negotiated for its members). Obviously this merchant would prefer to have all Visa and MasterCard transactions routed via the eftpos network.

Consider as another example a merchant who has low value average transactions of $10.25 per transaction - if the same MSF applied as above then this merchant would pay .14c per transaction using the eftpos network, however if that transaction was routed via the Visa or MasterCard scheme (pressing the credit button) that transaction would cost the merchant 0.08c per transaction.

The ARA believes that all acquiring banks should allow all merchants to decide if they wish to route transactions via a particular scheme route. In fact, the ARA via the Australian Merchant Payments Forum in a submission to the RBA in May 2011 (5.1) made reference to unbundling of card schemes and branding from the network, process, clearing and settlement activities would increase competition and innovation by encouraging new entrants into the Australian payments market.

Merchants should have a choice of routing for all payment transactions, including but not limited to the option of routing American Express (AMEX) companion cards issued by banks directly to the issuing bank instead of AMEX. For all practical purposes, these companion cards are the same as the original Visa or MasterCard and linked to the same account and are issued by the issuers on their own card platforms and do not require any processing or routing via AMEX. Routing via AMEX only adds costs and generates an additional revenue stream for card issuers and additional points to the cardholder without any value added to the payment functionally or process.

Overseas examples of merchant routing options occur in Europe (via SEPA for Cards and Payments Services Directive – PSD). Transaction routing choices guaranteed to the merchant under the Durbin amendment which prevents a scheme from mandating that a network is used for authorising, clearing or settling a debit card transaction.

Ownership of BINs is also an issue affecting routing. For contactless cards with multiple applications (e.g. eftpos and scheme debit applications on a single piece of plastic) the routing choice is determined by the BIN, which is typically “owned” by the international card schemes (Visa and MasterCard). This potentially prevents merchants from choosing to route these transactions over the lowest cost network. It also prevents consumers from choosing whether they wish to process the transaction as an eftpos transaction or as a scheme debit transaction.

Internet Payments Security

Over the past three to five years it has been well documented by the ARA that there has been and will continue to be a large growth in online or internet transactions. The volume and the value of transactions on the internet have been growing rapidly, and although transactions currently sit at 6% of total retail, it is expected that by 2020 (in six years) this figure will sit at approximately 12% of all retail transactions. As we move from August 2014 onwards to the removal of signatures at card present transactions, and as fraudulent transactions become more difficult in a card present transaction, the level of fraud in the online environment is a concern to the merchant community. This will drive up continuing innovation as the industry seeks cost effective solutions. These solutions could take many possible forms including biometrics, low cost PIN pads with wireless or USB connections to personal computers and other forms of Two Factor Authentication.

Evolving personal authentication methods should ideally be portable from one form of payment application to another, as the wide variety of different technologies and the increasing number of passwords and codes that need to be remembered by individuals actually represent a threat to security as they are invariably written down somewhere and can therefore be intercepted. Merchants expect this area to evolve rapidly over the next few years.

Internet Card Not Present (CNP) transactions are levied at a higher fee by card schemes and this is justified by higher CNP fraud levels. In many cases, no payment guarantee is given in exchange for the higher interchange fee and all fraud is charged straight back to the merchant. Where this is the case, the issuer fraud risk is very low as the merchant is accepting most (if not all) of the risk and therefore these merchants should in fact receive a lower interchange or MSF.

The EMV chip card has the potential to allow internet payments to be classified as Card Present Transactions, where the card holder’s computer is equipped with a chip card reader. In this situation, the card and the card reader can exchange secure messages to establish that they are both legitimate devices and that the card is in fact present during the transaction. The ARA believes these transactions should attract the lowest Card Present interchange rate, and believes that this would encourage more investment in low cost chip card readers for personal computers and mobile devices.

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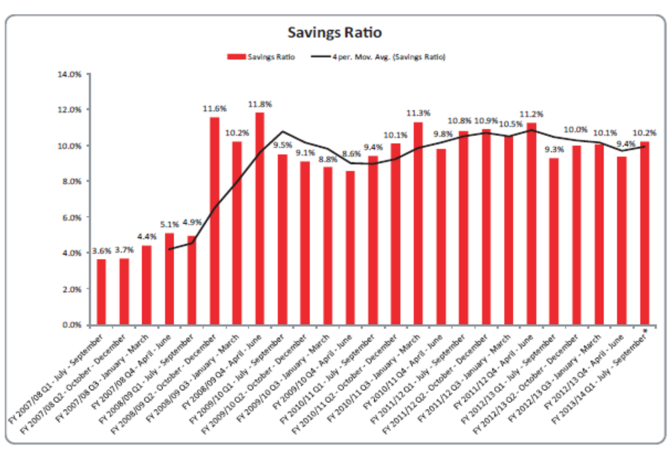
Executive summary

The ARA has a long tradition of representing the retail sector. In light of the challenging economic times our nation is now facing, we are calling on the Government to remember the importance of the services sector as an overall proportion of Australian economic activity and job creation.

- Responsible economic management and expenditure restraint
- No new taxes, or increases in existing taxes, with continued reduction in business tax except for the broadening of the GST base to lower inefficient taxes
- Continued regulation reform and harmonisation
- Accelerated private infrastructure investment and planning reform
- Commitment to the services sector through Vocational Education Training
- Keep Australia's AAA credit rating
- Industrial relations advocacy to support more flexible employee working hours and agreements in the retail sector
- Taxation reform through a broadening of the GST and finally dealing with reducing the low value threshold on GST for imports
- Power infrastructure reforms and development including the removal of the carbon tax to lower utility costs to retailers and consumers
- Support major transport infrastructure development to resolve supply chain issues
- The cost to small retailers must stop rising in the area of employment relations and penalty rates must be reduced.

Australian retailers are facing significant challenges, from a higher household saving rate (see the graph below) to the low value threshold on goods purchased overseas.



Source: RBA

We will be seeking clear commitments to these issues to be delivered post Federal Budget.