Submission to the Productivity Commission's interim report

Relative Costs of Doing Business in Australia: Retail Trade

The Australian Trade Commission (Austrade) is pleased to have the opportunity to provide comment to the Productivity Commission on its interim report – *Relative Costs of Doing Business in Australia: Retail Trade*.

Austrade is responsible for tourism policy, programs and research and for leading the implementation of the national long-term tourism strategy, *Tourism 2020*. As part of *Tourism 2020*, the Australian Government is committed to working with states, territories and industry to double overnight visitor expenditure to between $115 billion and $140 billion by 2020. Removing regulation that limits visitor expenditure is a key part of this objective.

The retail sector is a key component of the visitor economy and regulation that unduly restricts the operation of this sector can impact negatively not just on the retail sector, but on the level of visitor expenditure. In this context, Austrade's submission highlights areas of regulation that are relevant to the Productivity Commission's investigation into the retail trading sector.

Importance of retail to Australia's tourism industry

The Australian tourism industry is a significant part of the Australian economy. In 2012-13, the tourism industry contributed around $42.3 billion towards Gross Domestic Product, supported approximately 280,000 tourism-related businesses that directly and directly and indirectly employed 929,000 people and generated $26.9 billion (or 8.9 per cent) of Australia's export income.[1]

Retail shopping is not a primary motivator for travelling to Australia. However, it is an activity in which most international visitors participate and forms part of the visitor experience. The retail sector is a significant component of the tourism industry. It generates almost 10 per cent of tourism exports and is the fourth largest source of tourism export income.

In the 12 month period ending March 2014, shopping by international visitors totalled over $2.7 billion (over nine per cent of total international visitor spend). This figure is comprised of $1.8 billion of shopping to take home and $955 million of shopping for use in Australia[2]. This figure is even higher for domestic travel, with $5 billion of expenditure on 'shopping / gifts / souvenirs' in the year ending December 2013, constituting 27.4 per cent of total trip expenditure[3]. Total retail trade turnover in Australia for the year ending March 2014 was approximately $267.6 billion[4], constituting total visitor spend equal to nearly three per cent of total retail expenditure.

Retail shopping is an important part of the nation's tourism infrastructure because it provides an opportunity for visitors to experience local culture by allowing for direct person to person interaction. Retail shopping also provides visitors with an opportunity to purchase merchandise and souvenirs that can augment the visitor experience. In some cases these purchases can assist to raise awareness of Australia and positively influence consumers' future travel decisions.

[1] Australian Bureau of Statistics (Cat. No. 5249.0), *Tourism Satellite Account*, 2012-13
[2] Tourism Research Australia, *International Visitor Survey*, March 2014
[3] Tourism Research Australia, *National Visitor Survey,* December 2013
[4] Australian Bureau of Statistics (Cat. No. 8501.0), *Retail Trade Australia,* April 2013 to March 2014 statistics

Retail centres act as a point of community gathering, provide the foundation from which leisure and multi-use activity may emerge and contribute to the identity of a locality. In this way, retail shopping helps to fund broader entertainment and leisure precincts and provides spillover benefits for nearby businesses. When visitors undertake retail shopping, they are also likely to consume other goods and services (e.g. while out shopping a visitor might participate in other entertainment / leisure activities in the surrounding areas, or may dine at nearby cafes / restaurants).

Tourism 2020, the retail sector and regulatory reform

Visitor retail expenditure is a key tourism export and has an important role to play in the achievement of the *Tourism 2020* Potential of increasing overnight visitor expenditure to between $115 billion and $140 billion by 2020. However, there are a number of features of the current regulatory environment that are impacting negatively on tourism expenditure.

Trading hours

The Productivity Commission's interim report notes that retail trading hour restrictions exist to varying degrees in New South Wales, Queensland, Western Australia and South Australia. These regulatory features reduce retail traders' flexibility to provide retail services to visitors at times visitors are seeking them.

Placing constraints on the trading hours of 'walk-in' retail reduces the ability of businesses to flexibly respond to changing patterns of consumer behaviour, lifestyle and shopping routines which are otherwise not faced when shopping online. This negatively impacts upon the quality of service experienced by consumers.

The capacity constraints resulting from the regulation of trading hours can artificially reduce tourism exports and the size of the visitor economy. The Productivity Commission's 2011 study into the *Economic Structure and Performance of the Australian Retail Industry* cited international evidence showing that more liberal retail trading hours generated an increase in retail consumer spending.

The Productivity Commission's previous study did not examine the impact of trading hours on visitor expenditure. However because most visitors face greater time constraints than other consumers but have a higher propensity to make discretionary purchases, restrictive retail trading hours are likely to have a disproportionate impact on the visitor economy.

Most visitors spend only a short time in any given location and are likely to spend a large part of this time doing as many activities as possible that are unique to that destination. As many of these unique experiences relate to nature based and day trip activities that can only be accessed during the day, there is likely to be a significant number of visitors who would instead seek to engage in retail and associated activities in other times (ie at night and other periods that may be considered 'after hours') when retailers in some jurisdictions do not have the flexibility to service because of restrictive trading hours. This results in a loss of visitor expenditure and in activity that is foregone to the Australian economy.

Restrictions on retail trading hours impact upon Australia's supply of tourism product and have resulted in an inability to offer a retail experience comparable with key regional competitors such as Hong Kong, Macau and Singapore, which have established themselves as shopping destinations characterised by liberal trading hours.

The restrictions around retail trading ours are likely to impact negatively on visitor expenditure and the global competitiveness of the Australian bricks and mortar retail sector.

Trading hour regulations adversely impact on the tourism industry by discouraging investment in the broader entertainment and leisure precincts. International visitors expect an after-hours retail shopping experience, where this option is unavailable; visitors are less likely to engage in other associated entertainment activities (e.g. dining out). Restrictive retail hours are likely to have a greater multiplier effect on other forms of leisure expenditure by visitors.

Recommendation 1 – That State and Territory Governments consider the impact deregulating retail trading hours will have on the visitor economy.

Tourist Refund Scheme (TRS)

The TRS facilitates retail expenditure by providing tourists with a refund on the GST component of their purchases. It can only be claimed at the point of departure and refunds are made either by refunding credit cards (within five business days), transferring monies to an Australian bank account (within five business days) or a cheque (posted within 15 business days). Refunds cannot be paid in cash and cannot be given at the point of purchase.

The TRS is administered by the Australian Customs and Border Protection Service (Customs) on behalf of the Australian Taxation Office. Customs does not market the TRS to travellers and only 3.6 per cent of all departing passengers make claims[5]. In 2013-13, $95.4 million was refunded to TRS claimants[6].

Many countries have a TRS or similar schemes that provide tourists with a tax refund on certain retail purchases. There is limited empirical evidence about the impact of the TRS on inducing additional visitor retail spend, but the TRS has a number of features that suggest it is likely to induce some additional visitor retail spend.

The TRS is likely to induce additional spend in two scenarios. The first is where the impact of the discount will reduce the price of an item to a point where the consumer is willing to pay because the discount makes it affordable to the consumer. The second is where a consumer uses the 'savings' from a refund to make another purchase they would not have otherwise made. Both of these scenarios rely on consumers being aware of the TRS and the benefits it provides.

Greater visitor retail expenditure delivers benefits for the retail and the tourism sectors and the broader Australian economy since it will induce economic activity that would not have otherwise occurred.

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[5] Industry report prepared for Global Blue Holdings, *Economic Impact of the Private Provider Model for the Tourism Refund Scheme in Australia,* 2013

[6] Australian Customs and Border Protection Service, *Annual Report – Summary of Tourist Refund Claims*, 2013

However, the current regulatory arrangements around the TRS are contributing to extremely low rates of awareness that are compromising the scheme's policy objective. Similarly, the restriction that refunds cannot be paid in cash and can only be claimed at the point of departure differs from a number of other countries with similar schemes and makes the scheme cumbersome for visitors to access.

Industry, through the Tourism Shopping Reform Group (TSRG), has proposed that Australian Governments consider privatising the administration of the TRS, by allowing private firms, instead of Customs, to process TRS refunds on a commission basis, and to allow reimbursement while visitors are still in Australia. The rationale behind the proposal is that it would create an incentive to actively market the scheme to increase consumer take-up.

Austrade considers there are aspects of the proposal that have the potential to increase visitor expenditure as the proposal is likely to result in increased awareness of the scheme. Additional expenditure could be realised at the point of sale (consumers using 'savings' from a refund to make another purchase they would not otherwise have made), or at the point of departure (outbound travellers seeking to divest themselves of a currency they cannot use at their next destination). Austrade also considers that the introduction of private operators has the potential to create efficiencies for Customs staff to allow them to process arriving and departing passengers faster.

The restrictions around the TRS are likely to impact negatively on visitor retail expenditure and by extension the global competitiveness of the Australian bricks and mortar retail sector.

Recommendation 2 – That Australian Governments investigate whether the administration of the TRS should be privatised.