

## **Submission Paper for the Productivity Commission on The Australian Retail Sector.**

This Paper aims to answer the impediments encountered by the Australian Retail Industry due to the LVIT (Low Value Import Threshold) set by Customs and Border Protection. To show the rise and rise of overseas internet purchases by Australians, the huge loss of revenue in GST, Customs Duty and Customs Charges for the Government and more importantly, the loss of sales by local retailers leading to failures of businesses.

It is a collection of facts which highlight the impediments faced by retailers due to the high GST threshold of \$1,000.

*"Facts, gentlemen, are a stubborn thing.".....John Adams, American revolutionary.*

**Short history of the LVIT....**The Threshold was reduced from \$1,000 to \$250 on April 1<sup>st</sup> 1988. It was increased back to \$1,000 on 21/10/2005. The significance of this was reflected in the decrease in income revenue of Processing Charges only for the period 21/10/05 to 30/06/06 by \$10.3 million. Revenue fell from \$128.6m to \$118.3m. (*Source Financial Statements Annual Report 2005/06 Customs.gov.au*)

**The flow on effect of the \$1,000 GST free Threshold** on LVIT goods on the retail industry is immense. The general public can import goods from overseas at much reduced prices because of,

- Lower cost of doing business overseas, wages, local domestic taxes etc. (note a)
- Export will not attract country of origin sales tax.
- Import of same goods to Australia will not attract GST.
- No Customs Duty.
- No Customs Processing Fees and Charges.
- No checks on Australian Standards on health and safety, compliance etc.
- No full accountability on declared value or contents.

The combined effect of all of the above is around 40% – 50% cheaper than the Australian domestic retail price.

Flow on problems have resulted in

- Staff employment lost which also means less tax revenue.
- Closure of local retail businesses.(note b)
- Closure of high profile retailers, Borders, Angus & Robertson, Colorado Group etc. Although the GST threshold may not be the cause of closure, it certainly contributed.
- Retailers so affected make less profit, therefore less tax revenue to government.
- The economy suffers with cash going off shore forever.
- The Balance of Trade must suffer with more imports. (note c)

*The rise in overseas internet purchases is a matter of fact.*

**Surveys by AC Nielsen** back in 18/09/2006 found 5.9m internet buyers spent \$11.35 billion with an average annual purchase of \$1,900. Over half (51%) made multiple purchases.

**Surveys by AC Nielsen** in 2009 showed internet buyers had increased to 7.9m with 43% (3.4m) of all Australian online purchases made overseas. A conservative dollar value estimate using the 2006 average annual purchase of \$1,900 x 3.4m users is \$6.46 billion lost overseas in 2009.

Survey by **Sydney Morning Herald**, "Are you shopping online?",

70% , Yes, mostly overseas retailers, 19%, Yes, mostly Australian domestic retailers,

11%, No, do not buy online.....5,000 surveyed Oct 2010.

"A source of information which points to growth of online overseas purchases is the number of inbound posted items delivered through the Australia Post network. Since 2005 the total number of items delivered has increased at an average annual rate of 10% in contrast to an annual rate of decline of 1% in total number of domestic outward packages. " .....**Reserve Bank Australia, Statement on Monetary Policy Feb. 2011.**

Inbound Postal Items recorded by **Australia Post 2004 to 2010**.....

04/05 ....110million

05/06 ....140m

06/07 ....150m

07/08 ....160m

08/09 ....145m

09/10 ....185m

"Growth in the e-commerce market of up to 14% for the period to 2012 is expected to and far outstrips the predicted growth in traditional bricks and mortar retail sector. The impact of e-commerce on the economy is much larger when the effects from international e-commerce are included. These purchases represent a leakage from the Australian economy as they are imports. If the value of imports from international e-commerce becomes greater, this may have wider implications on the economy.

International e-commerce may also heighten the above impacts by widening the exposure of domestic retailers to international competition. For example, foreign competitors with greater economies of scale may result in lower prices from domestic retailers but may also mean some domestic firms will fail if they cannot compete."

E-Tail sales can be expected to increase rapidly over time with increased household internet penetration and the rise of Generation Y. A significant portion of this expenditure is directed to purchases from overseas websites. ACMA ( Australian Communications and Media Authority 2010, Australia in the Digital Economy, reports 32% of internet transactions are made overseas."

.....**Access Economics Pty Ltd, Report for Department of Broadband Communications and The Digital Economy 17/11/10.**



Value International Mail at average of Air Cargo (\$109 x 30million  
is \$3,270,000,000 at GST value..... \$327,000,000 GST lost.

Ignore Sea Cargo as per report >1% to give total revenue lost \$1,986,526,713 lost

Government Ministerial Officers from the Office of Minister Assisting the Treasurer Bill Shorten MP have stated a lower threshold is administratively unfeasible and not economically viable.

From the **Customs and Border Protection Annual Report 2009/10** the Wages and Salaries was \$318,170,000 with a reported average Staffing Levels of 5,488.9 persons. This gives an average annual salary of \$57,966. If a Processing Charge were applied to LVIT imports, the manpower of the Service could be increased six fold!

**Note a...Minimum Wages of highest competitors....**

[http://en.wikipedia.org/wiki/List\\_of\\_minimum\\_wages\\_by\\_country](http://en.wikipedia.org/wiki/List_of_minimum_wages_by_country)

US Federal Minimum Wage \$US7.25p.hr no superannuation included.

Hong Kong Minimum Wage \$US3.60p.hr.

United Kingdom Minimum Wage \$AUD9.26p.hr.

Australia Minimum Wage \$AUD15.00p.hr plus superannuation.

**Note b...Closure of Local Retail Businesses.**

In my own industry (Toys and Hobbies) there have been ten over the last twelve months known to me personally and all citing the overseas internet as the main reason to close because they cannot compete.

**Note c...Balance of Trade.**

**Australian Bureau of statistics...International Merchandise Imports, Aug. 2010.** Low value imports under the \$1,000 threshold are excluded in publications which provide estimates of imports on balance of payments. ABS Catalogue # 5439.0 All imports below \$1,000 are excluded from merchandise trade statistics.

With the growth in LVIT the true Balance of Trade has to affect the economy in a negative fashion.

24<sup>th</sup> April 2011. Colin Scott,

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