



19th May 2011

Retail Inquiry
Productivity Commission
GPO Box 1428
Canberra ACT 2601

Email: retail@pc.gov.au

Dear Sir / Madam

Re – Economic Structure and Performance of Retail Industry

The Motor Trades Association Queensland (MTA Queensland) responds to the Productivity Commission's (the Commission) invitation for submissions to the Issues Paper - *Economic Structure and Performance of the Retail Industry* (the Inquiry). MTA Queensland's comments are confined to issues that are within the purview of its members.

We note the Commission's "likely focus in this inquiry to largely exclude fuel and motor vehicle retailing (although motor vehicle parts retailing may be more relevant)." Our submission concentrates on MTA Queensland's members with retailing operations germane to the Inquiry which are sub sectors within the automotive value chain and include parts, accessories, apparel and merchandise, convenience shops attached to fuel outlets, salvage and recycled parts & accessories (sub sectors).

MTA Queensland Background

By way of background, MTA Queensland is the peak organisation in the State representing the specific interests of 2,500 businesses in the retail, repair and service sector of Australia's automotive industry. It is an industrial association of employers incorporated pursuant to the *Industrial Relations Act* of Queensland.

The Association, comprising 12 separate divisions represents and promotes the issues of the automotive industries to all levels of government and within Queensland's economic structure. There is a high propensity for the automotive value chain to comprise small to medium enterprises.

MTA Queensland divisions are each representative of a specialist area of the State's automotive industry. They are: **Australian Automotive Dealers' Association of Queensland; Queensland Farm and Industrial Machinery Dealers' Division; Queensland Motorcycle Industry Division; Automotive Engineers' Division; Queensland Tyre and Undercar Division; Engine Re-conditioners' Association of Queensland; Rental Vehicle Industry Division; Service Station & Convenience Store Association of Queensland; National Auto Collision Alliance; Used Car Division; Independent Tow Truck Operators and Auto Parts Recyclers' Association of Queensland.**

The Association is the leading automotive training organisation in Queensland offering nationally recognised training, covering all aspects of the retail motor trades industry. The

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Association's Motor Industry Training entity is the largest automotive apprentice trainer in Queensland employing 26 trainers based from Cairns to the Gold Coast and Toowoomba and Emerald.

Retail structural changes

Structural changes to the retailing sub sectors of the automotive value chain have evolved contiguously with the technological, communications, transportation and infrastructure modernisation over the past and current centuries breaking down the geographical barriers for the sourcing of products by consumers. **The most recent significant change has been e-commerce and internet shopping / online trading, in conjunction with the concept of "globalisation", which has replaced "localism".**

Over the past decade there have been fundamental changes to the Australian economy which have impacted on retailing causing changes to retailing by a real income and a substitution effect. Significant economic factors include the relatively high levels of price inflation across most sectors of the retailing industry, the increase in the cost of debt with credit interest rates being at high levels in comparison to international interest rates and appreciation of the Australian dollar against East Asian and North American currencies.

The combined effect has meant that there has been a real income effect as consumers use personal disposable income to pay down debt and curtail discretionary spending. There is a trend to debt avoidance by reducing the marginal propensity to consume. The substitution effect means that a section of the market is seeking to protect disposable income, as it contracts, by substituting an equivalent or similar product or item sourced overseas that is significantly cheaper than the Australian offering.

It should be noted too, that while not affecting the level of retailing in Australia, there have been changes to the patterns and spatiality of Australian retailing. Where once consumers were likely to source goods within a defined geographic distance of their residential address, the acquisition of major consumer items are likely to be canvassed across metropolitan areas, intercity or interstate. This is a noticeable trend that is occurring with automotive components and parts sales.

It is the experience of those MTA Queensland members, who in the main are small to medium business operators, that e-commerce has introduced economic and administrative "productivity" benefits but the emerging challenge is how to compete with on-line trading which thrives on the concept of the "global village" ignoring spatial retail or location specific competition. This also acts to appreciate the concept of economic nationalism. Anecdotally, Australian and State Government programmes to buy locally or nationally are less effective.

Members who are retailers of sub sector items, where it is viable to do so, have introduced on-line trading or internet retailing with promotions and discounts for specific purchases to compete with intercity, interstate or offshore competitors to counteract recognised "retail leakage". The anecdotal information particularly from retailers of motor-cycle apparel and accessories and parts and automotive vehicle accessories and parts indicates that consumer on-line sourcing of goods is eroding traditional sales volumes and having a detrimental effect on sales revenue and profitability.

Anecdotally, and from some in-store monitoring of consumer behaviour such as "trying on", "checking out", unauthorised and clandestine photographing or copying of accessory or part numbers indicate that consumers are merely "exploiting" the dealership or the retailer to

appraise the item /product with the intention of third party offshore sourcing. It is reasonable to assume that they discern that there are significant price advantages in the sourcing of products on-line. This includes automotive franchised and non-franchised and branded and unbranded accessories and parts.

More generally, and referring to convenience stores that are co-located with fuel outlets, there appears to be structural changes that may be of interest to the Inquiry. These are the statutory limiting of the cigarette and tobacco market and the short term tactical change to the retailing of bread and milk at injurious discount prices by the supermarkets. Each of these changes has impacted on consumer behaviour and the anecdotal information indicates that these have been to the disadvantage of the convenience store co-located with fuel outlets.

The broader structural changes that have impacted on the retailing market include the bringing forward of the retailing cycle for consumable durables by the Government's stimulus package to offset the Global Financial Crisis (GFC). In the case of the automotive industry sub sectors, the impact changed consumer maintenance and servicing habits for vehicles and therefore changes in the demand for automotive consumables. The question that we ponder is; as the GFC and the stimulus fade, will there be a return to the preventative maintenance cycle or will there be an extended cycle of only necessary repairs to avoid regular maintenance? The structural changes include the statutory changes to the retail sector cost of labour and charges for work rates under the new Modern Awards.

Consumer purchasing behaviour

It is evident from recent statistical and reported data, that consumer purchasing behaviour and patterns are changing. The Australian Bureau of Statistics retail data (8501.0 Retail Trade, Australia, March 2011) suggests a marginal contraction in retail purchasing in consumable durables and Reserve Bank data for the year to March shows growth on credit with charge cards slowing to 5.5 per cent compared to a 15.6 per cent rise for debit cards. This suggests that the marginal propensity to consume out of personal disposal income has decreased and the corresponding marginal propensity to save has increased. It maybe coincidental, but the contraction in retail spending and the "propensity to save" in Australia occur at a time when there is an apparent "explosion" in offshore sourcing.

As stated above some consumers, desirous of protecting real income, are doing so by substituting an equivalent or similar product or item sourced overseas that is significantly cheaper than the Australian offering.

Small Business confidence

Consumer caution and the increasing propensity of offshore sourcing for cheaper products coupled with the rising costs of doing business, compliance costs and "red tape" is impacting on the profitability and the viability of some small business. These factors have meant that to remain competitive with domestic wholesalers and retailers, small business has shaved retail margins to almost cost but these appear incapable of restoring competitiveness against offshore on-line wholesalers or retailers which do not have comparable cost structures to those imposed on Australia's retailers.

The negative sentiment of some of our members who are business operators in the automotive value chain's sub sectors is consistent with the Australian Chamber of Commerce and Industry's February, 2011, ACCI Small Business Survey which found: "the

index for business conditions in the December quarter fell from 44.5 to 42. ...The indicators for business conditions, sales revenue, employment, selling prices and investment all contracted for the small business sector.”

MTA Queensland’s acknowledges that Queensland’s natural disasters have had a recent negative impact on small business, but the consistent trend feedback from members is that economic circumstances are “tough” and labour recruitment for either “apprentices or retail or administrative purposes” is a “wait and see” proposition. The general trend has been for small businesses, which were pushed to find savings and efficiencies that included shedding labour due to the Global Financial Crisis, are endeavoring to hold existing staff. A real concern exists amongst some of our members that the growth in the sourcing of parts, accessories and merchandise online from offshore or domestic suppliers could cause further downsizing of their establishments. It is noted that the National Retail Association recently predicted 5,000 jobs could be lost as Australia’s consumers divert consumption to on line stores...

Unfair practices

It is the view of MTA Queensland that our retail sub sector operators, in addition to offshore sourcing, have to compete against unfair practices such as the “dumping” of goods in the Australian market at less than fair value, the proliferation of counterfeiting of brands and “grey” trading. This includes the copying of designs and infringement of intellectual property. Such unfair practices evade trade protocols, statutory compliance and regulatory costs, other compliance fees and charges including environmental and quarantine requirements and avoid consumer laws in relation to consumer recourse.

Offshore retailing can involve the infringement or counterfeiting of business names as well as branding. This can involve the duplication of designs and packaging either in response to specific customer orders or by a broad based supply of duplicates or “pirated copies”.

Unfair advantage – offshore business do not pay Australian statutory charges

Off shore retailers have an immediate and significant local economic advantage compared to their Australian counterparts e.g. countries from which goods are sourced have common business environments – large populations, lower wages, rents and on-costs. In such countries (China population of 1,329 million, United States population of 311 million) there is a propensity for overheads to be lower due to economies of scale. In other words the size of the market alone enables business to work on smaller margins. Typically there is no pay-back to the Australian economy through employment, community support or taxes from profits.

Our members who are retailers of imported parts, accessories and merchandise, must build into their costs relatively high freight/transport charges, customs clearance fees, import duties, wages (up to three times more than those of offshore competitors), rents (up to three times more than some United State competitors), taxes, compliance costs, interest rates, freight charges etc. These on-costs are likely to be increased by a Carbon Tax from July 1 next year.

Members recognise that whilst on-costs are high compared with offshore competitors, and that these will fluctuate according to economic circumstances, they hold the firm view that there is an opportunity for the Inquiry to consider and make recommendations to Government that there should be a comparable basis for the retailing of all consumer goods

whether retailed offshore or sourced domestically. **The Goods and Services Tax on all goods sourced from offshore by Australian consumers on credit or debit cards should apply and be collected by the credit/debit card institution in the same way that Australian businesses collect the Goods and Services Tax (GST) as well as other statutory charges on behalf of the Australian Government.**

Conclusion and Recommendation

The structural changes to Australian retailing represent a policy challenge. While “fair” offshore competition should not be unreasonably curtailed, there appear to be transactions designed to evade the statutory obligations that are intended to operate on retail sales in Australia. The statutory retail regulatory frameworks, the Consumer Protection Framework and international trade protocols could be strengthened in relation to dumping and countervailing and counterfeiting of brands.

The issue of the evasion and avoidance of Australia’s taxation regime and of regulatory compliance costs is more complex. It appears the issue is one of where to set a “threshold” that does not prevent fair and reasonable access to offshore goods for Australian consumers and yet a regime that discourages overseas business from participating in arrangements to evade the taxation and regulatory regimes to which a business enterprise servicing the Australian market should be subjected. Without such an arrangement, offshore business enjoys an unfair advantage to the detriment of Australia’s retailing sector.

MTA Queensland recognises that the concept of a level playing field is a challenging issue to address as it is likely that as a framework is implemented to capture offshore retailing, the business model being used is likely to change in an endeavour to evade statutory taxation/charges/fees which are a considerable part of the competitive advantage that drive offshore suppliers. We have formed the view that in the first instance policy consideration should be given to imposing the GST on all consumer goods sourced by consumers offshore using either their credit or debit cards and be collected by the respective financial institutions on behalf of the Australian Government.

Thank you for your consideration. We would be pleased to provide further comment on any matters in our submission that may require further clarification or amplification.

Yours sincerely

Richard Payne
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