

20/5/11
SUBMISSION BY NEIL BLUNDY
TO:
Retail Industry Enquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Background.

I own two retail businesses, both of which are involved in the supply of speciality outdoor equipment for hiking, rock climbing, trekking and the like. The most prominent of these businesses is Bogong Equipment Pty Ltd. Across both these businesses I employ 12 staff FTE (full time equivalent) I have been in outdoor retail for over 30 years.

Website www.bogong.com.au

Online sales from overseas and the \$1,000 tax free threshold is the NUMBER ONE issue for me as a retailer by a big margin.

So What Is The Issue?

The key issue revolves around the current \$1,000 tax free threshold for imports. There are other issues around retail productivity in general equity in user pays principles for customs services, import duties and the like.

My case is that there should not be a \$1,000 tax free threshold.

There is much commentary around stating that abolishing the threshold is solely the agenda being pushed by the big end of tow. I would argue that the businesses most at risk are the thousands of smaller operators such as myself. Large retailers can direct source from China or elsewhere to cut costs, and I am sure you are aware of announcements that Bernie Brookes, CEO of Myer, that they are looking at installing in-store kiosks so customers can look at products in-store and then order them ex Myer warehouse in Asia thus avoiding GST and duty.¹ This type of scheme is obviously only available to major retailers.

I have heard it quoted from numerous sources from Bill Shorten down that online sales "only" contribute 3% of the total retail cake. I have attempted to obtain statistics from the Bureau of Statistics both this is extraordinarily difficult but even a cursory search shows that the total retail take includes many items that would never be subject to online importing. Items such as petrol, general food groceries (bread, meat, fruit & veg), take away food appear to form a substantial part of the retail spend in this country and thus the 3% is actually a much larger proportion of the type of retail were online importing is actually viable. perhaps the commission should look into this and inform the government of what the actual figures are.

My Business

I can tell you that the effect of online importing on my retail business in our industry in general is huge and is an increasing and massive problem. There are numerous and daily examples of it. It is impossible to give actual figures but the anecdotal evidence is plain to see.

There are also numerous examples of consumers using my retail business merely as a viewing house. They look at the product, get themselves fitted up for the size they want, taking advantage of the advice and attention of appropriately skilled and remunerated staff, and then go off to purchase it on the net. There is only one motivating factor for this:- price. I cannot state too strongly that this is a major threat to the future viability of my retail business and indeed in certain areas it has already had a devastating effect.

I hear numerous commentary that "retailers should get there act together", "give better customer service", "the price gap is larger than 10% so therefore there is no point in removing the threshold" etc. All of these miss the point the retailers are operating under an unfair disadvantage.

So what are we doing about it?

Like many businesses we are combating the problem on as many different levels as we can and our busy lives allow.

- Lobbying to remove the tax free threshold. This is not THE solution but part of the solution.
- Lobbying our suppliers overseas for global parity pricing policies on their supply. (For example they often sell cheaper to large markets, think USA, than smaller countries like Australia)
- Lowering our margins and tightening our belts where we can
- Developing our own online webstore
- Working through a buying group as much as possible to reduce middle man costs

Overseas Businesses

There is no question that international online suppliers are targeting Australia as they see it as a "soft touch" because of our regulatory or should I say lack of regulatory framework. Special pop ups and entry pages occur on web sites for google searches coming from Australian IP addresses. An example of one such "entry" page is shown in attached pdf UK UltraLight Gear 19.1.11 ² This UK based web store is highlighting one thing on this page, the fact that you can avoid charges. Note it is almost impossible to navigate to this page from within the webstore. This is not an isolated case.

Reasons why the \$1,000 tax free threshold should be abolished

1. It is simply not fair. As a retailer I am not asking for a subsidy or special consideration. I am just asking that the regulatory requirements and taxes that must be paid by a consumer in my store are the same for all consumers. In effect the present regime is in fact a subsidy for overseas resellers selling into Australia. Why would the country want to do that?

2. The cost of compliance is too high? I have seen evidence produced to prove this, it has just been stated as a principle. I note that other countries seem to be able to manage the cost of compliance quite successfully. Obviously on the other side the Government is obviously foregoing revenue. I cannot believe in this electronic age the government cannot devise a viable mechanism to collect these taxes. I note that as a retailer I am expected to collect and remit to the government the GST on EVERY item I sell no matter how trivial and account for it. If I can collect the GST on a \$1.00 sale, keep track of it and send it off to the ATO surely the government can manage. How the balance works out who would know but I simply make two pints. All evidence points to a rapid rise in online imports so therefore the quantum of revenue being foregone must be increasing rapidly. Secondly the cost of compliance is not strictly relevant, the government should be operating good policy principles for the good of the country, these may or may be revenue earning.

3. There are numerous standards that Australia has decided to uphold as a country and community. Most Australians including myself support these standards in general terms. These often involve considerable direct or secondary costs to retail businesses in this country. The list is long and includes labour standards such as wage levels and compulsory superannuation, a whole raft of taxes and charges such as parole tax, BAS returns, OHS compliance, product labelling requirements, requirement to not sell counterfeit and/or fake goods, product safety requirements to name just a few. I shall say more about safety requirements in my next point. Put simply under the current system goods coming in under the threshold are subject to NIL requirements or governance under these issues.

3. Safety.

We sell equipment for rock climbing and vertical access. this is subject to stringent safety and regulatory requirements and rightly so. These are mission critical devices. It is clear to me from anecdotal evidence that a huge quantity of climbing equipment is coming in to Australia under the \$1,000 threshold. What requirement is there to check that these goods are genuine. None! Does the government hold me responsible as a retailer that my goods meet certain standards. Yes! This is not some academic argument. Recently Petzl, a major French manufacturer of climbing equipment issued the following notice about counterfeit Chinese made climbing products.
<http://www.petzl.com/us/outdoor/news-2/2011/02/11/warning-regarding-presence-counterfeit-versions-petzl-products>

So what happens when a consumer purchases these products on the net believing them to be genuine petzl products, his carabiner breaks and he falls to his death. Who is responsible?

Of course I am sure there are many other potential issues of which I am less well informed. Flammable night garments for children, bodgie electrical products etc.

4. Employment

Whether anyone wants to believe it or not employment in certain areas of specialty retail is under considerable risk. The retail industry is a huge employer in Australia. Even a small impact on employment levels will therefore have a big impact.

5. Environmental issues.

The big picture is that the government and I believe both major political parties are committed to reducing our carbon footprint. It is inherently inefficient from an environmental viewpoint to be air freighting numerous small parcels around the world.

6. Import duties and customs compliance costs.

Of course not only do consumers pay GST when they purchase from my stores but also duty which is significant on footwear and clothing items. And I believe that customs charges operate on a user pays principle. Thus when we sell a product it has had these customs charges applied in part to ensure the goods comply with many of the items outlined in point 2.

7. Whilst I acknowledge that on the face of it a 10% GST will not bridge the gap in many instances between online prices and local retail it will certainly help and allow retailers the opportunities to pursue parallel strategies to close the gap.

8. Australian businesses are at risk. This last point is not being over dramatic. I have run a successful retail business for 30 years employing many people and thus raising considerable tax revenue for the ATO through this employment not to mention our company taxes. Of course the Government may prefer to give PREFERENTIAL treatment to overseas companies that contribute NOTHING to the Australian economy but this strikes me as poor policy.

My Suggested Solution

1. The GST free threshold should be abolished or at least lowered to a realistic level such as \$100

2. To help defray costs of compliance the government would charge a flat handling fee on small consignments in lieu of customs charges, duty etc. (I am well aware of the complications of the duty classification scheme) For no particular reason I suggest this should be in the \$20 to \$30 range as being fair. Simple is good so flat is the way to go.

I thank you for your time in reading this submission and I apologise for the length of it.

¹ Myer floats taxfree website. See Sydney Morning Herald 03/12/2010

² UK UltraLight Gear 19.1.11 Pdf attached