

AUSTRALIAN GOVERNMENT – PRODUCTIVITY COMMISSION

**Economic Structure and Performance of the
Australian Retail Industry**



BICYCLE INDUSTRIES AUSTRALIA LTD

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Bicycle Industries Australia Ltd (BIA) represents bicycle manufacturers, importers and wholesalers within Australia.

The BIA was formed with the expressed aims;

- To foster the interests of the Australian Bicycle Industry
- To promote sound and ethical trading and commercial practices

The Australian bicycle industry comprises approximately 500 importers, manufacturers and wholesalers, along with approximately 1000 specialised retail stores.

The BIA is a member of the Fair Imports Alliance (FIA). As a member of the FIA we support all points of discussion which has been raised through the joint submission.

Further to the points which have been raised within the FIA discussion paper, the BIA would like to raise issues more specific to the operations of the industry.

IMPACT ON THE AUSTRALIAN BICYCLE INDUSTRY

The Australian bicycle industry has been hit extremely hard by international online trading.

The industry in 2007 directly employed over 6000 people through specialised bicycle distributors and retailers, and many more through large chain stores and associated businesses including transport and logistics, with a total sales value of over \$1 billion¹.

With minimal manufacturing in Australia, all major brands of bicycles are manufactured overseas and imported into Australia. In 2007, that number reached a record high of over 1.43 million units, before falling to 1.1 million in 2008 and 1.2 million in 2009².

The Australian bike retail sector is severely affected by the type and use of the product which it distributes along with the clientele which it targets. Bicycle parts, clothing and accessories are often small and light in nature, offering themselves to be easily transported through air freight. This combined with the average price of goods being below the \$1000 Low Value Threshold (an internal industry survey identifying that 75% of product sold in Australian specialised bicycle stores is priced below \$1000) has supported the growing trend of offshore purchasing.

Financial reports from 2009, indicated that Chain Reaction Cycles in Northern Ireland expanded their international trade of bicycles and bicycle related parts and accessories to £48.6million³. This figure had grown by 143.2 percent between 2007 and 2009 (the last year which figures are available for), almost doubling in 2008. The average currency exchange rate from Great Britain Pound to Australian dollars in 2009 was Au\$.50⁴, giving Chain Reaction Cycles international market sales value of approximately AU\$100million.

Australia is one of the top destinations for these sales, which have increased to make Chain Reaction Cycles Royal Mails largest customer in Northern Ireland and Parcel Forces largest export account⁵ at 30,000 parcels per month⁶. It is difficult to identify exact figures, but with expected growth in international sales and especially to Australia as a target market due to favourable exchange rates, this company has a significant market share of the \$1billion Australian market.

¹ http://www.bikeoz.com.au/images/Documents/bike_sales_in_australia_july_06.pdf

² Australian Customs and Border protection – annual bicycle import data

³ <http://www.fasttrack.co.uk/fasttrack/leagues/dbintDetails.asp?siteID=7&compID=3085&yr=2011>

⁴ <http://www.oanda.com/currency/average>

⁵ <http://www.chainreactioncycles.com/News.aspx?NewsID=758>

⁶ <http://www.egain.com/pages/Level2.asp?sectionID=6&pageID=1303>

A further example is Torpedo7.com.au, a New Zealand based online site. The company has a reported \$65million turnover⁷ of which 50% of sales are made in Australia⁸. These two sites alone demonstrate the vast percentage of the Australian bicycle market sales which are being purchased overseas, but with strong competition from sites such as wiggles.co.uk, probikekit.com and ribblecycles.co.uk there is a significant portion of the Australian bicycle market sending their money overseas.

By waiving GST and import duties, the Government is preferencing international traders over Australian businesses and giving them a price discount advantage of 15-20%; that is, 10% GST and 5-10% duties. This is extremely concerning to Australian retailers as they cannot compete on an equitable basis in an otherwise competitive market.

⁷ <http://unlimited.co.nz/unlimited.nsf/growth/torpedo7-hits-its-target>

⁸ <http://www.istart.com.au/index/HM20/AL29454/AR212785>

AUSTRALIAN STANDARDS

The Australian bicycle sector, like many Australian sectors are subject to several Australian Standards, two of which are mandatory and four main standards which are voluntary.

To utilise the current standard AS/NZS 2063:2008 bicycle helmets, as an example, an individual company in Australia has considerable costs to meet the testing requirements of this standard.

These costs include⁹;

ITEM	COST	EXPLANATION
Application Fee	\$10,000 + GST#	For each new premise/factory utilised or for the introduction of new testing protocol (as was required for new standards in December 2009)
Annual Fee	\$9,500 + GST*	Annual fee paid to the testing agency
Type Fee	\$1,150 + GST^	Testing of the form of the helmet
Engineering Fee	\$375 + GST^	Engineer report on each type of helmet
Total cost incurred in standards testing prior to importing a single helmet	\$21,025 + GST	
Batch Test	\$200 + GST	In every batch of 400 helmets, 4 must be tested to destruction

Costs are incurred per factory used

*Costs are incurred per organisation

^Costs are incurred per model of helmet

⁹ All costs are based upon SAI Global standard fee structures.

Prior to the importation of a single helmet, an importer of helmets into Australia must pay a fee of \$21,025 + GST to meet current Australia Standards requirements, with each model incurring further costs.

Additional costs are incurred to receive approval from Australian Standards per shipment made. Helmets are imported in batches of up to 400 units. For each batch imported, 4 helmets must be tested to destruction.

The cost for this testing is \$200 + GST per batch, plus the cost of purchase of the destroyed helmets.

A further variable cost incurred to meet Australian Standards is the design costs to modify helmets to meet Australian Standards. As Australia has the strictest helmet standards in the world, further engineering costs are incurred in most instances to modify the helmet to meet these standards. Due to the current standards, introduced in 2008, the majority of helmets constructed for European and American markets do not pass Australian testing protocols.

The laws regulating these standards are overseen by the Australian Competition and Consumer Commission (ACCC). If an Australian retailer supplies a helmet that has not been tested to current Australian Standards, and labelled appropriately, that retailer faces a fine of up to \$1.1 million and the individual staff member faces a fine of \$220,000.

The ACCC has indicated they have no authority over offshore online sales sites, which therefore allows these sites to sell helmets into Australia which have not been tested to meet Australian Standards. These helmets are illegal to use on Australian roads.

Online sites such as Wiggle.co.uk openly advertise that the helmets they sell are not tested to Australian Standards and therefore do not need to include a charge to recover the costs associated with the Australian Standards.¹⁰

The costs associated with meeting Australian Standards ensures that retailers are not willing to import directly due to the size of the Australian market – requiring importation through a wholesaler. This extra layer of supply adds extra expense to Australian retailers compared to overseas retailers. It also adds enormous Australian economic activity and benefit.

¹⁰ <http://www.wiggle.co.uk/rudy-project-sterling-road-cycling-helmet/#more>

CONSUMER PROTECTION LAWS

The reduced authority of the ACCC over offshore online sales also relates to Australian consumer protection laws.¹¹

Australia introduced national consumer protection laws on the 1st of January 2011¹². These laws extend to all purchases of goods or services made from an Australian based retailer or business. These laws do not cover purchases made from international based retailers.

These laws provide protection for consumers, by placing a level of burden on an Australian business. Along with the burden, this also adds a level of cost to that Australian business.

This protection does not exist if purchasing from an international retailer, leaving the consumer more vulnerable to less scrupulous vendors.

According to the ACCC website, if you are in dispute with an offshore retailer, you must contact the consumer body in that country, and ‘There is no guarantee that an international agency will follow up individual complaints—this will depend on its policies.’¹³

Many consumers are unaware of the protection provided by the consumer protection laws when purchasing goods and services in Australia.

¹¹ <http://www.accc.gov.au/content/index.phtml/itemId/268478>

¹² <http://www.consumerlaw.gov.au/content/Content.aspx?doc=home.htm>

¹³ <http://www.accc.gov.au/content/index.phtml/itemId/268478>

AUSTRALIAN BRAND PROMOTION

Australian wholesalers and retailers are responsible for the promotion of individual brands within Australia. The costs associated with this promotion is paid to Australian media, including TV, radio, print and online outlets.

Offshore online sites within the bicycle sector do not have associated costs of marketing individual brands in Australia, therefore reducing their investment in Australian media.

The impact is that Australian wholesalers and retailers are paying to create brand awareness, a cost which they must recover through sales in Australia. Through this promotion, they are also contributing to the Australian economy.

Further impacting on the promotion of individual brands is that Australian bicycle wholesalers in an internal industry survey have reported that they receive on average 111 product returns per year for products which have been purchased from an offshore retail site and returned to the Australian company for warranty repairs.

The Australian wholesaler is forced to make the decision to service a product it did not sell, or risk the negative publicity relating to their product.

LOCAL EVIDENCE THAT LOCAL RESELLERS ARE USING THE LOW VALUE THRESHOLD

The greatest challenge associated with developing a response to this issue is the lack of available information from the Customs and Border Protection Agency. The agency is unable to provide data relating to the type and value of goods entering into Australia.

According to an Australian Bureau of Statistics Report¹⁴:

Customs do not require lodgements for imports below a dollar threshold. All imports below this threshold are excluded from merchandise statistics.

These excluded lodgements number more than those used to produce the import statistics but in value terms is estimated to be less than 1% of the import statistics. At present the threshold value for customs lodgement is \$1000.

The lack of records data is extremely alarming as it does not allow for any real analysis of the quantity of particular goods or the value of these goods entering the country.

The Productivity Commission Issues Paper questioned whether savings made purchasing through an offshore retailer would be offset through increased transport costs.

The identified savings from the reduction of GST and duties is not offset within the bicycle industry by any increase in transport or associated fees. Citing wiggles.co.uk, that due to their discounted shipping rates associated with the volume of their products shipped to Australia, any purchase of goods over Au\$80 is shipped free of charge to the consumer. Australian resellers are benefiting from bulk discount transport rates.

¹⁴ Australian Bureau of statistics...International Merchandise Imports, Aug. 2010.

POTENTIAL IMPACT ON AUSTRALIAN GOVERNMENT REVENUE

The Australian bicycle market is worth approximately \$1 billion dollars¹⁵, current reported figures from online sites including wiggles.co.uk, chainreactioncycles.co.uk and probikekit.com it is estimated that at least 15% of this market is being serviced directly from international online sites and shipped directly from international ports equating to \$15 million in lost GST plus an equal figure in lost duties.

The Federal Government in March this year announced that the estimated lost GST revenue through international online imports is approximately \$460 million this year, growing approximately \$50 million each year for the next four years. Based on the estimated minimum lost GST revenue of \$15 million from the bike industry alone, we believe this figure to be undervalued¹⁶.

The future value of any lost GST revenue will only continue to grow, and the true affects of this will not be known without the Government and customs providing a realistic value to the current import value of goods into Australia.

The lost revenue to the government is far larger than just the impact of GST and Duties. With each product that is not 'sold' in Australia, the government loses the value of that dollar continuing to circulate in the Australian economy, combined with the impact on the employment sector and associated income tax.

The Government in their 2011/2012 budget has introduced a 'Flood and cyclone levy'¹⁷, which each Australian earning more than \$50,000 per year will be required to pay. This levy will be collected in Australia, from Australians, earning within Australia and will net the Federal Government \$1.704 billion dollars. If the current estimates of Custom's are correct, this is the amount lost in just over a three year period through the Low Value Threshold.

¹⁵ http://www.bikeoz.com.au/images/Documents/bike_sales_in_australia_july_06.pdf

¹⁶ <http://www.theaustralian.com.au/national-affairs/internet-shoppers-saving-13m-a-day-as-lost-revenue-grows-10pc-a-year/story-fn59niix-1226032273275>

¹⁷ <http://www.treasury.gov.au/floodrebuild/content/default.asp>

ADMINISTRATIVE FEASIBILITY OF REDUCING THE LOW VALUE THRESHOLD

Australian retailers and importers pay the costs associated with managing the administrative burden of GST and import duties on sales made in Australia. An internal online industry survey reported that Australian bicycle wholesalers spend approximately \$25,000 annually to manage their financial accounts. The vast majority of sales from an Australian bicycle retailer are less than \$1000. If Treasury estimates that there is a significant cost to administratively process such sub-\$1,000 transactions it would seem inequitable that that estimated cost is not borne by those who choose to import such goods directly.

In an Australian Taxation Office (ATO) report¹⁸ released in February 2010, the ATO on investigating the issue on of the Low Value Threshold indicated that it would be administratively unfeasible to lower the value of the Threshold.

During a presentation by the Customs and Border protection Authority in Melbourne on the 25th of March 2011, representatives from that authority acknowledged that they had not completed any modelling on a reduced threshold, to any level, and did not have any figures on the increased costs associated with a reduced threshold. The same representatives reported they had given general and non-specific input into the taxation investigation. As a result of this work, the ATO in making conclusions regarding the administrative feasibility of lowering the threshold did not have the necessary information.

As a member of the FIA, we have requested information on any modelling for a reduced threshold. At the time of writing this report, this information had not been provided.

The current wages costs of the entire Customs and Border Protection staff is \$318million¹⁹ per year, employing almost 5,500 staff. Any associated costs would be estimated to be covered by an increase in revenue, which the government has estimated, would be \$460 million in the coming year, growing each year after that.

¹⁸ *Review of The Application of GST to Cross Border Transactions*, Board of Taxation, 2010

¹⁹ *Customs and Border Protection Annual Report 2009/10*

ENVIRONMENTAL IMPACT

The transport of goods to Australia has a dramatic impact on the environment. The vast majority of products being transported to Australia from offshore online purchases are done through air transport.

- According to the Swiss Centre for Life Cycle Inventories.
 - Air cargo produces 1.04 kg CO₂-eq per [tonne.km](#)²⁰

Australian importers and wholesalers, due to volume of individual shipments, utilise sea cargo to a much larger degree than offshore retailers to transport goods to Australia.

- According to the Swiss Centre for Life Cycle Inventories
 - Sea cargo produces 0.0087 kg CO₂-eq per [tonne.km](#)²¹

As can be seen from the above ratios, the bulk shipping of goods to Australia via sea cargo has a hugely reduced impact on the environment, as air cargo produces over 119 times more carbon pollution than the transportation of the same goods by sea.

²⁰ Ecoinvent, an international life cycle inventory database by the Swiss Centre for Life Cycle Inventories

²¹ Ecoinvent, an international life cycle inventory database by the Swiss Centre for Life Cycle Inventories

WAGE RATES

Impacting greatly on the *financial viability of Australian businesses* and the liveability of Australia as a country is the minimum wages paid to workers. This minimum wage affects many within the retail and wholesale sectors.

A comparison of Australia, the United States of America and the United Kingdom, quickly demonstrates the impact of current minimum wage rates on a business’s profitability. The impact of a minimum wage rate which is over double that of the USA and approximately 50% greater than the UK, often dictates that an Australian business either reduces sales staff or increase prices to cover the associated costs.

	Australia	USA	United Kingdom
Minimum Wage	Au \$15.00per/hour ²²	Au \$6.79per/hour ²³	Au\$10.53per/hour ²⁴

- Converted to Australian dollars using current exchange rates from the Reserve Bank of Australia on 13/5/11.
- Based on a 38 hour work week.

LEVEL PLAYING FIELD

The current structure of the Low Value Threshold creates an uneven playing field in favour of offshore retail sites. Simply, if an Australian retailer is selling the same product as an offshore seller, and the consumer chooses to shop offshore, the current Government taxation laws to imported products preferences international traders over Australian businesses by giving them a price discount advantage of 15-20%; that is, 10% GST and 5-10% duties. This is extremely concerning to Australian retailers as they cannot compete on an equitable basis in an otherwise competitive market.

While retailers realise that the price differential will still exist between products sold in Australia and those sold overseas even with the removal of this GST-free threshold, they believe it will create a tax neutral setting; one where domestic retailers will be able to compete by providing exceptional

²² Fair Work Australia

²³ United States Department of Labour

²⁴ HM Revenue and Customs

customer service standards and in-store experiences. In short, the Government's taxation policy creates a profound impediment to Australian retailers' business models and thus affects their ongoing contribution to, and viability within, the economy.

The Level playing field extends beyond importation cost, but is also associated with;

A local commercial entity must address the following costs of doing business, not incurred by their GST free overseas competitor.

ITEM	LOCAL BUSINESS	OFFSHORE RETAILER
ASIC Annual Business Return	Yes	No
Quarterly BAS Statements	Yes	No
State Employment Tax (5.3% - 6%)	Yes	No
Monthly GST return and payments	Yes	No
Super Guarantee Levy (9%)	Yes	No
Import Duties (0-10%)	Yes	Not if <Au\$1000
GST on Goods and services (10%)	Yes	Not if < Au\$1000
Consumer Protection law	Yes	No
Australian Standards	Yes	No

Policy recommendations

Key elements, which would provide significant benefits to reduce the imbalance towards offshore retailers are;

- 1. Removal of the low value importation threshold for imported good. All items imported into Australia attract GST and appropriate duties.*
- 2. Enforcement of all Australian Standards on products sold and distributed to Australian consumers – regardless of their place of origin. (eg bicycle helmets)*
- 3. Clear branding of domestic e-tailers as ‘Australian’.*
- 4. Increased financial and education support for small and medium Australian retailers to develop increased efficient e-trading.*
- 5. Greater consumer education about the protection provided by Australian Consumer protection Laws.*

Conclusion

Australia has developed a way of life, demonstrating key leadership in infrastructure, welfare, health and education that is the envy of most nations. Our wage rates are higher, support benefits greater and we pay more tax than most nations so that we can continue to be called the lucky country.

Australian wholesalers and retailers cannot compete with countries, especially in the sectors which would be considered to be funded from discretionary income, with overseas companies who have costs a fraction of what we have. Australian retailers cannot compete with unregulated, not to standard, low cost base (wages/warehouse rentals/taxes), no warranty on-line competitors.

The demise of Australian retailers will flow on to the demise of Australian importers/wholesalers/distributors and all the industries that service them. Australian retailers, in the main, rely on importers/wholesale/distributors for the supply of their stock. The vast majority of retailers do not supply to large enough markets to order the required quantity's of stock direct from overseas factories. This extra layer of supply adds extra expense to Australian retailers compared to overseas retailers. It also adds enormous Australian economic activity and benefit.

Generally it would be agreed that our manufacturing industry has almost disappeared, and we risk the speciality retail sector to suffer a similar demise.

The Government needs to understand the question, are they satisfied to suffer the demise of this segment of the retail industry, the relating job losses and reduced government revenue as a direct result?