

Submission From Link International Pty Ltd

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Link International Pty Ltd is an import wholesale distributor of motorcycle parts and accessories. Link currently employs 65 staff and sells directly to over 1600 motorcycle dealers and retailers. Link has carried out detailed surveys of its dealer network in an attempt to understand how their business has been affected by the low value GST threshold.

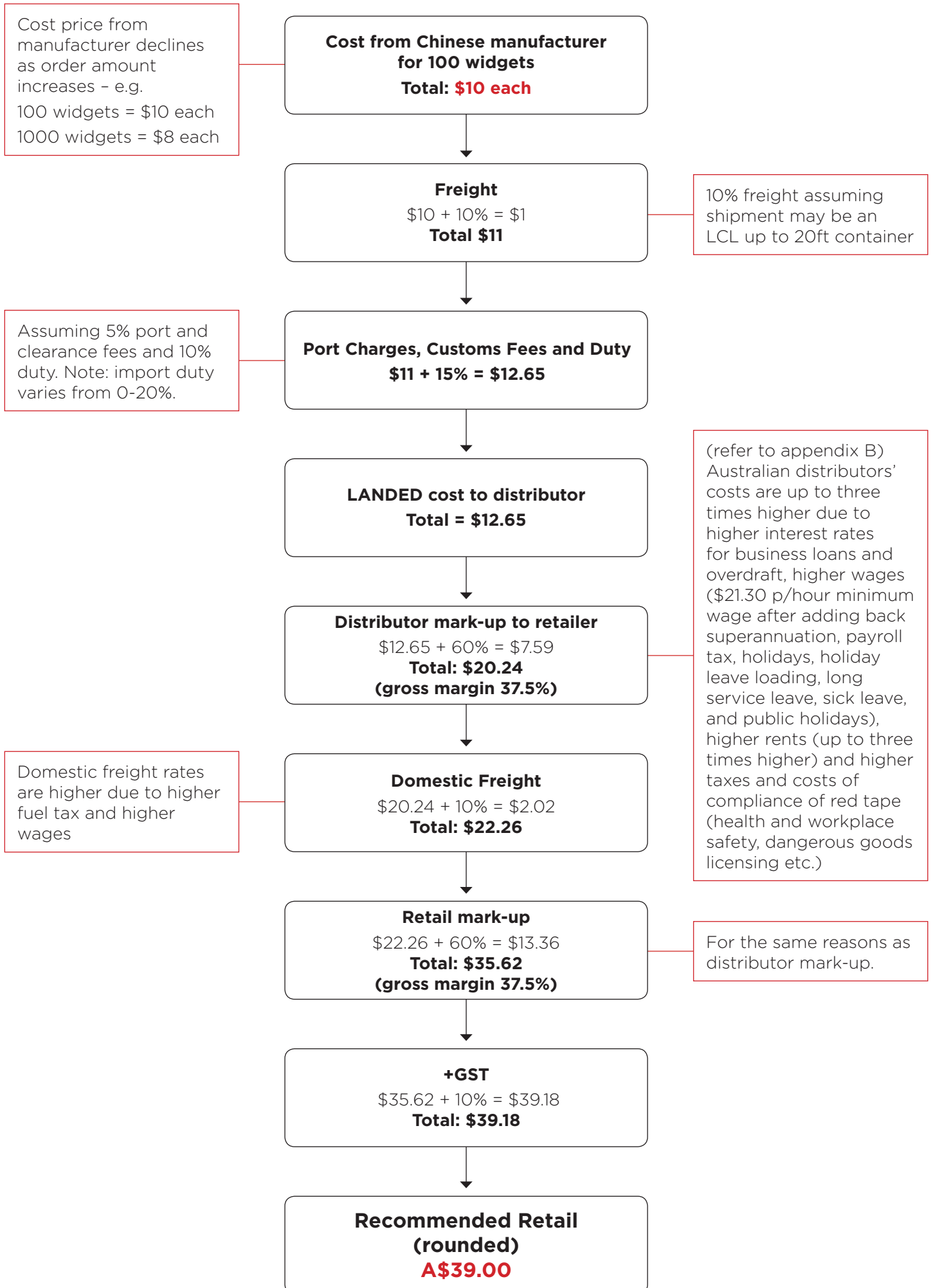
The survey results have given a clear indication to us that the biggest problem facing our industry at the moment is the attack by overseas websites, directly aimed at the Australian consumer, exploiting the GST import duty loophole. Our surveys indicate that our dealer base is losing somewhere between 10 and 20% of their total retail sales which is beginning to have an enormous affect on the profitability of their businesses and a large number of our customers have started to retrench staff in an attempt to put their businesses back into a profitable position. Unfortunately, a lot of the smaller mum and dad shops (family run businesses), that had no staff and low overheads to begin with just simply cannot compete and are closing their doors.

Since March of this year, we have received a record number of delinquent trading accounts and a record number of businesses going into receivership. We believe this is a direct result of the massive increase in overseas online ordering from the Australian consumers. We as a wholesaler are trying our best to support our dealer network by reducing our wholesale pricing and RRP pricing as quickly as we can to enable our dealers to compete online, but unfortunately there is a long time lag because, in some cases, we are carrying 12 months inventory in our warehouse, so that retail prices cannot drop as quickly as they need to. Unfortunately, because of our higher cost structure, from a wholesale point of view, and our dealers' higher costs, it is virtually impossible to get our pricing down to the level that our US competitors RRP's are currently at.

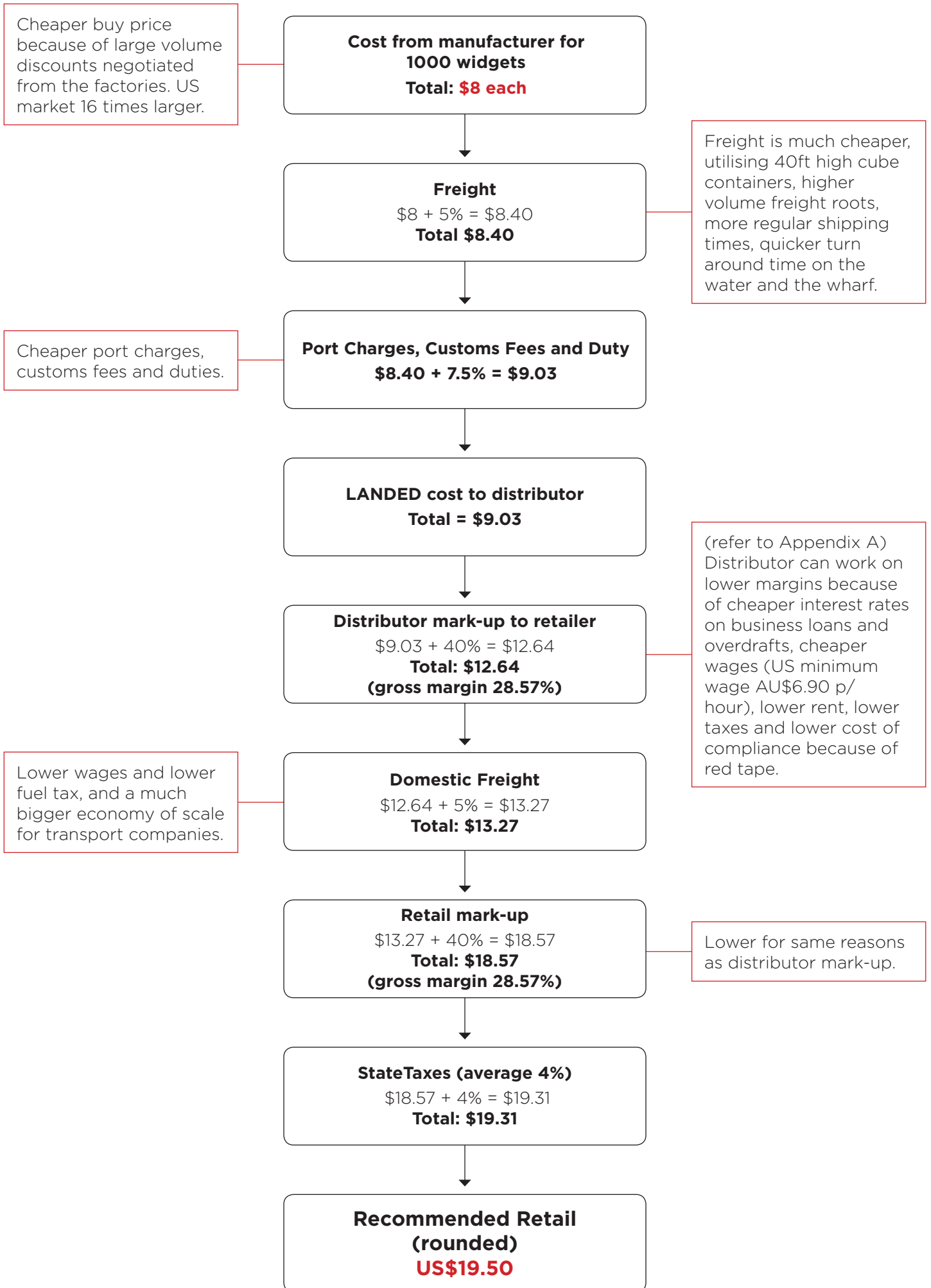
The flow chart 'Australian Retail Price Value Chain' (Appendix A) demonstrates a rough explanation of how the costs can vary so greatly between the US (Appendix B) and Australian markets. This illustration assumes that 100 widgets cost \$10 from China, and the factory offers volume discounts. Bare in mind that our US competitors have a market that is sixteen times bigger, but here we are only assuming a ten times greater volume increase. There are so many variables and factors in this equation that can change, but this illustration shows how dramatically the end price can change, even if the cost price only varies by \$2 in the beginning. When you compound the higher costs through the value chain, each step of the way, the \$2 cost difference turns into a \$19.50 price difference. This illustration is even more dramatic if we increase the wholesale and retail margins from 60% to 100%. The \$2 price difference increases to a \$41.90 difference, when the final price of \$61.14 is compared to the US counterpart of \$19.50. A 100% mark-up is required in some industries where there is a high cost of redundant and obsolete stock, or industries that have very low stock turns. Within industries such as clothing and fashion a 100% mark-up is standard.

In the attached flow chart (Appendix A) we refer to higher costs associated with running a business in Australia compared to the US (Appendix B). These higher costs occur in virtually every aspect of the business from the cost of stationary, through to wages, rent and insurance. I have also attached a flow chart (Appendix C) which roughly breaks down the Australian minimum wage into the cost to the employer per hour worked to give you a better understanding of why our costs are so much higher when compared to US minimum wage (see Appendix D). If you look up a website and saw that the Australian minimum wage was \$15 per hour and US was \$7 per hour you would quickly assume that our wage costs are double. However, the reality is that our minimum wage costs are three times that of the US equivalent. So when an Australian consumer, earning fantastic wages (with all the workplace entitlements), has the opportunity to buy goods with the push of a button from a low cost market, duty and tax free, and have them delivered to their front door within days, we have to expect that they are going to take advantage of this loophole.

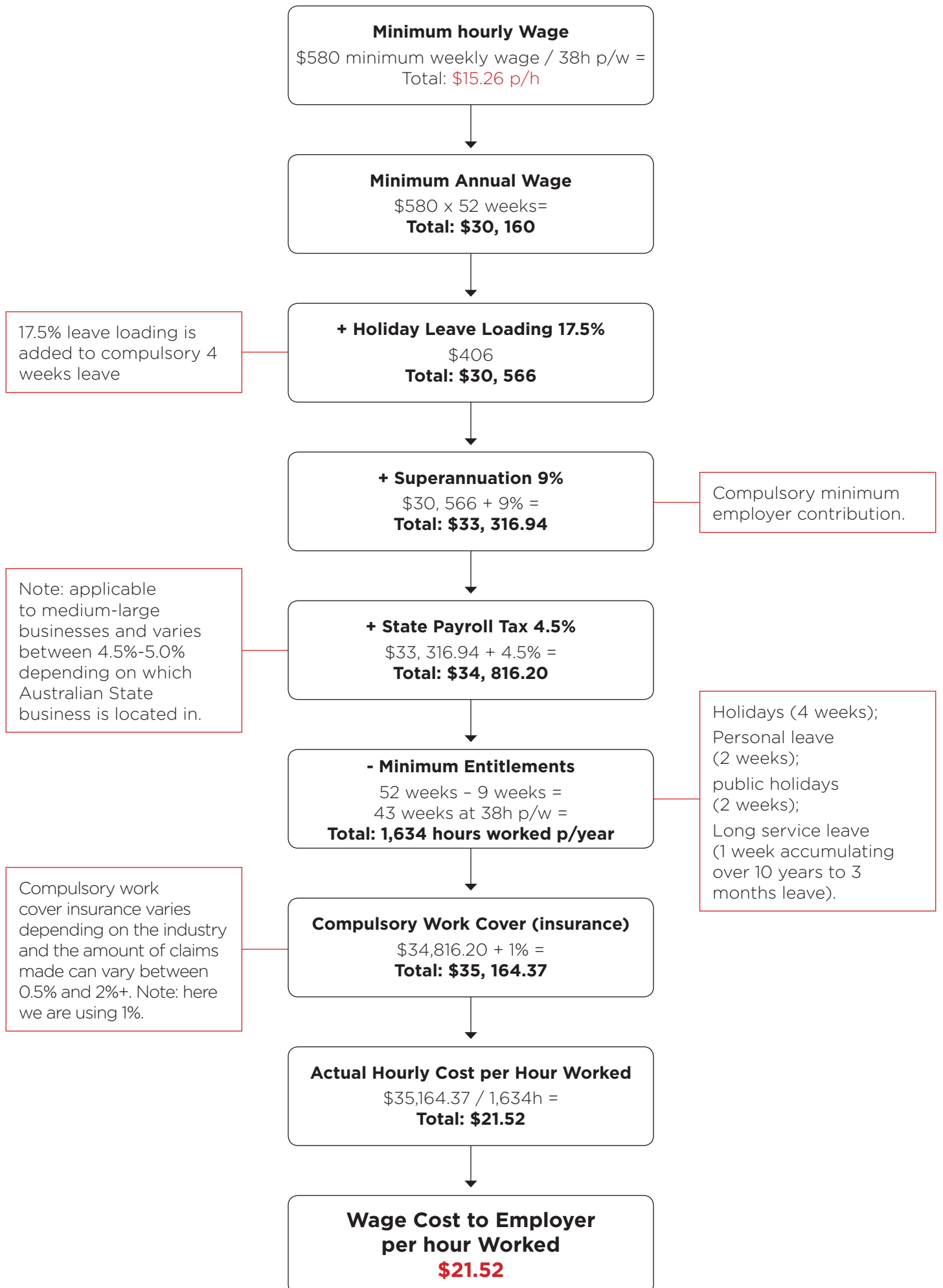
Australian Retail Price Value Chain - Appendix A



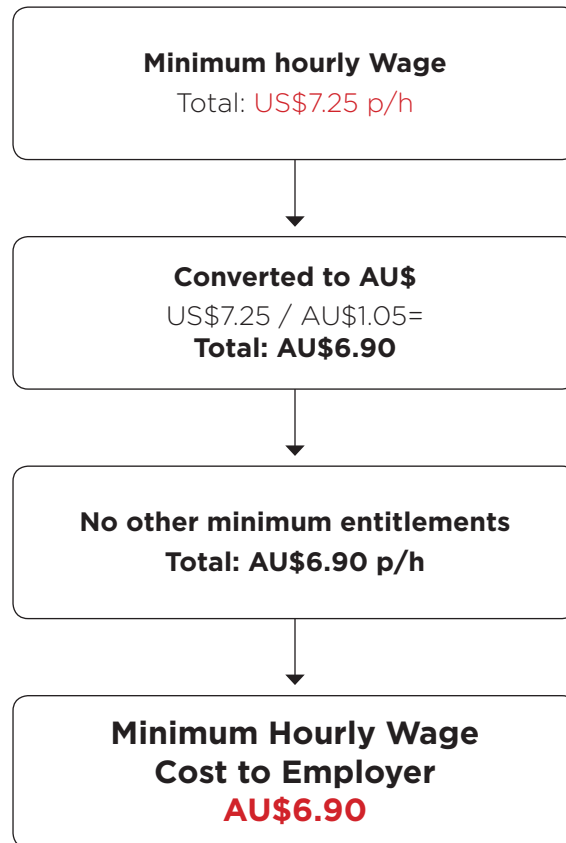
US Retail Price Value Chain – Appendix B



Australian Minimum Wage Costs Flow Chart – Appendix C



American Minimum Wage Costs Flowchart – Appendix D



For centuries, countries have been using tariffs as a way of protecting their own industries, businesses and workers.

With the free trade agreements we are being moved into a zero or low duty environment – Australian businesses are being asked to compete on a level playing field. Australian businesses are doing what they can to drive costs down and save money where they can to be internationally competitive but free trade agreements never are and never were intended to include domestic GST or VAT.

By the government failing in our obligation to collect GST and import duty on low value orders it is having a hugely negative impact on Australian businesses. It is acting like a reverse trade barrier, giving our overseas competitors a tax advantage over our OWN Australian businesses.

This low value exemption has a hugely negative effect on Australian businesses wanting to invest in online businesses – why spend a fortune investing when you know you can't compete, and know that there is an unfair loophole giving your overseas competitors an advantage that you are never going to have no matter how efficient and competitive you are. Import duties were originally set up to protect Australian businesses and encourage industries to invest money and grow; this reverse trade barrier (the low value goods loophole exemption) is having an adverse effect on online retailing. There is no incentive for Australian retailers to foster and develop an online retail business when they have less ability to compete online because of the reverse trade barrier.

We believe that this is the key reason that Australia is lagging compared to the rest of the world in efficient online retail businesses. By getting rid of the low value exemption loophole then Australian consumers would eventually have more opportunities to buy domestically due to a greater investment in Australian online stores. But if this loophole is left, the Australian consumer will continue to shop online from an evermore efficient international online business exploiting our loophole. This will, in turn, drive international freight charges even lower and make it even more difficult for our domestic online stores to compete.

We know that the consumer wants to shop online, that they will continue to shop online, but some markets like the US, because of the sheer size of their market, have an enormous variety of product available to the consumer which Australian retailers will never be able to offer. They have a much lower cost base right through the value chain to enable them to be extremely cheap. In effect, there will still be incentive for the Australian consumer to buy from overseas even if they have to pay import duty and GST when the goods arrive. However, we could definitely narrow the gap between US and Australian retail price and slow the growth of overseas internet purchases and stop the leakage of tax revenue.

Summary of Pros and Cons associated with the removal of the Low Value threshold exemption – Appendix E

Benefits to the Community and the Consumer

Higher Collection of GST Tax Revenue (Dist. To States)

Higher Collection of Import Duty Tax Revenue

More Australian Jobs & Job security

Higher Company Tax Collection

Higher Income Tax Collection

Will encourage more investment in more Australian bricks and mortar retail business

Will encourage more investment in Australian online retail business

Improve our economy of scale

Lower price from Australian bricks and mortar retail business (from volume benefits)

Lower price from Australian Online Retailer (from volume benefits)

Lower Volume of Overseas orders makes border protection cheaper and more efficient (scanning for drugs, firearms etc)

Better consumer protection for Product Liability Insurance, Warranty Issues, Australian Standards.

Better IP protection - less goods infringing trademarks, copyright etc

Negatives to the Community

Cost (?) to Collect GST and Duty (may need small handling fee to offset)

Negatives to the Consumer

Slighter higher cost to land overseas orders

Slightly longer delivery times (to clear customs)

We feel that where the board of taxation failed in their last review of this issue is that they focussed too narrowly on the actual collection cost of the GST and duty, rather than broadening their scope to look at the community costs (see Appendix E) due to loss of duty, GST, income tax, company tax, employment and the psychological effect on Australian businesses knowing your overseas competitors are being given an unfair advantage.

It was interesting to note that when the then government introduced this low value threshold they exempted tobacco and alcohol from this low value exemption for a very good reason. They knew at the time that if there was a loophole left there would be an opportunity for consumer exploitation. Unfortunately, at the time, they failed to forecast the massive growth in general overseas online business and the ability of the Australian consumer to exploit this loophole.

Fundamentally, no matter what it costs to collect isn't really relevant, it should be about the principle of fairness and the ability for Australian businesses to compete on a level playing field in order to offer the best outcome for Australian consumers and the general community.