

20 May 2011

Chairman
Productivity Commission
Level 28, 35 Collins Street
Melbourne VIC 3000

By facsimile: (02) 6240 3311

Dear Sir

Inquiry into the Economic Structure and Performance of the Australian Retail Industry

Industry Statistics

In June 2008 the Australian Bureau of Statistics ("ABS") ceased collecting retail sales data for the Watch and Jewellery industry due to budget cuts. The ABS had, since the mid-1970s collected sales data on a monthly basis from all large enterprises, and from a sample survey of small enterprises. This information was very useful to the industry including the size of the industry, growth trends, sales by state, and the number of retail outlets.

We believe that the ABS should resume the collection and publication of the sales data for our industry, as it will assist with decisions regarding expansion, investment in additional and new merchandise, and employment. Total sales of the industry are estimated (based on the ABS 2008 figures plus estimated increases for 2009 and 2010) to exceed \$4 billion.

Should budget restraints preclude the resumption of monthly data surveys, then we would seek an annual survey that would include some additional information including employee numbers and changes in inventory levels.

Trade Practices ACT

Section 53 of the Trade Practices Act compels businesses providing wholesale GST inclusive price lists to business customers who are sole traders or partnerships. Because some customer entities are companies, and some are not, all price lists need to be GST inclusive to avoid a breach of the Act. Many businesses in the jewellery industry have incurred significant costs to reproduce price lists, catalogues etc. with GST inclusive prices. Many others have not yet done so, and may still be in breach of the Act.

Inventory items acquired by businesses are recorded excluding GST in accounting records and in most computerised inventory systems. This is in accordance with internationally accepted accounting practices. Generally, retail pricing is calculated by applying a mark-up factor to the GST exclusive price.

We understand, and the ACCC has confirmed, that this was an unintended consequence, and they would not prosecute a "business to business" transaction in these circumstances. However we seek an amendment to the act to remove the unintended consequences (additional unnecessary costs and inconvenience, and potential prosecution) of Section 53. We should also point out that this matter affects all industries in Australia.

Retail Leases

There is a great imbalance between landlord and tenant in major shopping centres when negotiating rental **renewals**. The landlords are usually sophisticated negotiators and have in their possession rental data regarding all tenants in the centre and in other centres they might own. The tenant is ignorant as to how his/her proposed new rental compares with other tenants in that centre and is under the added pressure that the landlord has every right not to renew the lease if the landlord does not achieve the rental being asked for. At the same time the retailer has spent 5 years (the length of most retail leases) building up a business, invested heavily in the store fit out (this applies particularly to jewellers) and, in most cases wants to stay in the same spot. As a result of all this the retailer is at a distinct disadvantage. Legislation should be introduced to enable a fairer resolution of lease **renewals**.

In addition retailers are required to supply monthly sales figures to landlords even though many new leases do include a turnover clause that would affect the rental. This knowledge allows the landlord to judge how much rental increase they can “get away with” when renewing a lease. Our recommendation is that legislation should be introduced to allow retailers not to have to provide turnover figures unless there is a turnover clause in the lease contract.

Tax Free Threshold

We strongly support the lowering of the tax free threshold. Despite being regarded a luxury industry the average sale per jewellery item amounts to no more than \$200.00. If other countries can manage to administer lower thresholds (refer Productivity Commission Issues Paper) Australia should be able to do likewise. A system needs to be implemented by the Australian Customs Authorities that will result in the efficient processing of lower valued items that will result a net benefit.

Yours faithfully

Ian Hadassin

CEO