



**Submission to the Productivity
Commission Inquiry Issues Paper
into the Economic Structure and
Performance of the Australian
Retail Industry**

20 May 2011



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

Executive Summary

- Visa supports consumers and merchants with secure, efficient and innovative payment methods across both the face-to-face and eCommerce retail environments.
- Visa supports open and competitive markets and a robust and growing retail sector.
- Publicly available evidence supports a view that eCommerce is a comparatively small but growing proportion of overall retail sales in Australia, which remain dominated by face-to-face retail commerce.
- Publicly available data also suggests that of eCommerce transactions, the majority are purchases from Australian online retailers.
- There has been debate about the impact of the GST low value importation threshold and its possible impact on face-to-face and online Australian retailers vis-à-vis international online retailers.
- Several independent reviews have found the case for changing the level of the GST low value importation threshold is weak and would likely result in significantly greater costs to consumers, merchants and the government.
- Visa suggests that growth in eCommerce is reflective primarily not of the impact of the GST low value importation threshold but of increasing consumer confidence in the online retail environment, the increased use of a selection of innovative payment options developed by companies like Visa, wider choices in goods and services, competitive pricing and the impact of currency movements.
- Visa feels that there is not a clear case for any change to the level of the GST low value importation threshold.

Visa and payments technology

Visa is a payments technology company with a long commitment to the Australian market.

Operating in 200 countries and territories, Visa's global network now includes more than 1.85 billion cards, 1.8 million ATMs and 15,700 financial institutions. The total global volume on Visa credit, debit and prepaid products in calendar year 2010 was more than US\$5.2 trillion.

We believe that our local and international success is built firmly on our commitment to payments system innovation delivered through our world-leading payments technology platform, known as VisaNet, which is now capable of processing data at a rate of more than 20,000 transaction messages per second.

Visa and modern retail payment channels

Visa products provide an important means through which payments can be transacted in the modern retail environment. The ability to pay with a Visa credit, debit or prepaid electronic payment method provides a range of benefits to the Australian economy generally and the retail sector specifically.

For consumers these benefits include a zero liability security commitment, global acceptance and online shopping capabilities. For merchants the benefits include greater pools of customers and increased sales, increased security of payment, lower physical security costs and faster payment acceptance and settlement times.

To support both consumers and merchants, Visa provides innovative and secure electronic payment options across both traditional face-to-face retail channels and also newer online or eCommerce channels. Visa strongly supports broad policy settings that lead to a robust and growing retail sector overall.

Face-to-face retail

In the face-to-face retail environment, or what are referred to as 'card-present' transactions due to the consumers' Visa card being physically presented to a merchant as part of the transaction process, we have recently introduced or will be introducing a range of innovative payment developments to assist retail outcomes.

Visa Easy Payments Services

Visa has introduced the Visa Easy Payment Service (VEPS) in Australia to make it faster and easier for cardholders to pay for small value purchases in the face-to-face retail environment.

Under this program, customers who use their Visa credit, debit or prepaid cards at participating retailers will no longer need to enter a PIN or sign a receipt for purchases of \$35 or less. All transactions will still be securely authenticated by the card issuer prior to approval.

Visa payWave

Visa *payWave* is Visa's contactless payment technology. Visa *payWave* facilitates fast and convenient transactions at the point of sale and eliminates the requirement for a consumer to make physical contact with the terminal when making a purchase, and is therefore known as a "contactless" payment. Consumers simply wave their card in front of the contactless terminal in order to pay.

Mobile payments

Mobile payments is the next evolutionary step beyond contactless cards in which a Visa application has been installed on a NFC (Near Field Communication) enabled smart phone. To make payments, NFC smart phone users simply select the Visa mobile payment application and wave the smart phone in front of the contactless terminal.

The net effect of VEPS, Visa *payWave* and future mobile payment options is a significant ongoing contribution to support face-to-face retail commerce, with each of these services being designed to increase transaction speed and cardholder convenience at the point of sale, allowing merchants to reduce queues and improve customer service.

eCommerce

Visa has been making eCommerce payments as safe, reliable and convenient as possible since the advent of online shopping.

Built on the sound, safe and reliable technological foundation of VisaNet, Visa has built a range of eCommerce payment options, ranging from standard online transactions, through to online transactions that have built-in additional and dynamic security features. These types of online transactions form part of a grouping referred to as 'card-not-present' transactions due to the consumers' Visa card not being physically presented to a merchant as part of the transaction process.

As part of our commitment to the provision of maximum consumer choice and ease of commerce for retail merchants, Visa has also developed a range of specific online payment platforms that illustrate the future direction of retail eCommerce, both in Australia and globally.

payclick

In mid-2010 Visa launched *payclick*, an innovative new service for Australian consumers to purchase goods and services online with enhanced security and privacy features.¹

payclick, which was developed in Australia, is a wholly owned subsidiary of Visa and provides a platform to connect consumers with online retailers without sharing personal details or financial information.

A *payclick* account can be funded from a Visa, MasterCard or bank account and provides an easy-to-use platform to enable Australian retailers to expand their eCommerce sales, regardless of whether they are existing online retailers or bricks-and-mortar retailers moving newly into the online area.

Visa digital wallet

Another major innovation from Visa that relates heavily to the future of eCommerce was announced in early May 2011 with the launch of the Visa Global Innovation Strategy. A key element of this strategy was the announcement of a Visa digital wallet.²

The Visa digital wallet will store all a consumers payment cards in a “wallet”, including non-Visa branded cards, which resides on a handheld device such as a smart phone or smart tablet. Consumers will not need to enter a 16-digit card number, an expiration date and CVV2 code to undertake a transaction as these data points will be stored in the digital wallet for easy use.

The digital wallet will support near field communications (NFC) payments through the Visa *payWave* application and will deliver a wide range of transaction services to accommodate multiple commerce scenarios – including eCommerce, mobile commerce, micropayments, social networks and person-to-person payments.

Key features of the wallet are expected to include:

¹ For more information visit www.payclick.com.au

² Visa “*Visa unveils next generation electronic payments and services*” 11 May 2011
<http://corporate.visa.com/media-center/press-releases/press1124.jsp>

- Click-to-buy: shop conveniently and securely by simply entering an email address, alias or online ID and password, instead of a billing address, account number and expiration date;
- Cross-channel payments solution: the wallet consolidates multiple Visa and non-Visa payments accounts and can be used in mobile, eCommerce, social network and retail point-of-sale environments;
- Preference management: a menu that enables consumers to set preferences for how their wallet will work, allowing them to customise and control the features of their personal wallet from privacy settings to designating which account will be accessed based on merchant type or purchase amount; and
- Merchant offers: a service that allows consumers to personalise their shopping experience by opting-in to receive money-saving discounts or promotions from participating merchants.

The key point in detailing Visa's commitment to both face-to-face and eCommerce payments solutions is to illustrate how Visa payments technology strongly serves both retail commercial channels.

Australians and online transactions

Overview

The Productivity Commission *Economic Structure and Performance of the Australian Retail Industry Inquiry* Issues Paper focuses heavily on the possible impacts of growth in the online retail environment vis-à-vis the face-to-face retail environment, and specifically on the impact of non-Australian sites in this market share mix.

As is clear from the strong commitment to innovative Visa payment options in both the online and face-to-face environments, Visa does not take a view when it comes to the channels and forms through which retail spending can occur – we develop innovative, secure payments solutions for all retail channels.

Uptake of eCommerce

It is however accurate that eCommerce is a growing channel. Research released in mid-November 2010 by the Australian Communications and Media Authority (ACMA) found that Australians have started to embrace eCommerce with 88 percent of household internet users undertaking one

or more eCommerce activities and 69 percent having purchased at least one good or service in the last six months of the survey.³

These are unsurprising data considering that Australians are very well connected to the internet. According to the Australian Bureau of Statistics December 2010 Australian Internet Activity survey, as of the end of December 2010, there were 10.4 million active internet subscribers in Australia and this excludes internet connections through mobile handsets.⁴

However, it is important to put these statistics in context. The Access Economics *Household E-Commerce Activity and Trends in Australia* report estimated that online retail sales by Australians in 2009 totaled between A\$19 and A\$24 billion, or only around three percent of total sales in that year.⁵

International component

The issue of what portion of this online retail trade involved purchasing from non-Australian retail websites and what impact this has on e-Commerce retailers, has gained much attention in the Australian media, particularly in the context of the role of indirect taxation arrangements on such sales. We set out our views on indirect taxation issues below, but we feel it is important to determine the scale of international sales as part of the overall eCommerce activity in Australia.

When this analysis is undertaken it becomes clear that eCommerce remains a relatively small, although growing, and largely local opportunity in Australia.

According to the abovementioned Access Economics report, of the three percent of total sales that occurred through the online retail channel, at least 50 percent, and up to 80 percent, of that amount was spent with Australian online retail outlets.⁶

This then equates to eCommerce sales through international sites representing as little as 1.5 percent of all retail sales in Australia.

This Australian/international split is broadly supported by the abovementioned ACMA research which found that 68 percent of online shoppers reported they most often use Australian websites to make their purchase. Of those respondents, 24 percent cited 'support local industry' as the main reason and a further 23 percent said 'I don't trust overseas websites'.

³ ACMA *Australian in the digital economy: Consumer engagement in e-commerce* Nov. 2010 p.21

⁴ ABS 8153.0 - Internet Activity, Australia, Dec 2010

⁶ Access Economics Report *Household E-Commerce Activity and Trends in Australia* p. lii

In contrast, ACMA found that only 12 percent of respondents prefer to buy from overseas sites. The reasons found for the preferences of this group are products being unavailable locally (56 percent), products were cheaper (41 percent) and greater product choice (13 percent).

Submission analysis

Keeping eCommerce growth in context

It is obvious that consumer demand to buy online will continue to grow. A significant number of Australian face-to-face retailers have recognised this and embraced the opportunities presented by eCommerce.

However, as set out above, the scale of eCommerce today must be kept in context and seen in light of total retail sales which remain dominated by face-to-face retail activity.

Furthermore, the portion of eCommerce sales that are from Australian's shopping on international sites has to be considered in a similar context. There has been much debate about the impact of this portion of eCommerce activity on the face-to-face retail sector. It does not appear from the available statistics that many of the key concerns are borne out in market share outcomes.

From Visa's perspective in relation to payments, there are no payment system impediments that prevent Australian retailers from competing in eCommerce retail and Visa has, as outlined above, developed innovative platforms like *payclick* and the forthcoming Visa digital wallet to further assist eCommerce activity.

Competition and choice

Visa supports a competitive market place in payments systems and likewise in retail goods and services. We firmly believe in consumer choice, and Visa's network is geared to enable consumers to complete a transaction, when and where ever they decide to purchase goods and services.

As such, we would not support any measure that seeks to deny consumers choice, especially if it was an inefficient and cost ineffective measure.

Indirect taxation arrangements

Low value importation threshold

A core contention in the recent debate about online retailing has been the view that the Goods and Services Tax (GST) low value importation

threshold – which sees no 10 percent GST or customs duty collected on inbound items under A\$1,000 in value – disadvantages Australian businesses as against overseas retailers, commonly online, and that this arrangement is threatening the health of the domestic retail sector.

As outlined above, when an analysis of the available statistical evidence is undertaken, it is difficult to arrive at a conclusion that supports this view. When considering that all international eCommerce represents approximately only 1.5 percent of retail spending and that only a portion of this, even if a majority, would be under the A\$1,000 threshold, it is challenging to then conclude that a significant market impact results.

Previous independent analysis

Visa notes the extensive previous independent analysis that has been conducted on the specific issue of the impact of the GST low value importation threshold. We note specifically that the Joint Committee for Public Accounts and Audit in 1998 called for the threshold to be set at \$1,000 to align the threshold levels for postal and non-postal low value imports.

More recently in 2010, the Board of Taxation undertook an extensive analysis of the threshold level in its *Review of the Application of GST to Cross-Border Transactions* and concluded that the low value importation threshold of \$1,000 is appropriate because “...the administrative costs of bringing more goods into the customs system in order to account for GST the costs of which is likely to outweigh any benefit”.⁷

The Board of Taxation also noted that non-indexation of the threshold since 2005 means that the value of goods imported will continue to fall in real terms. This will obviously continue into the future if the threshold is not increased.

Overall, the board recommended that it was “of the view that it is not administratively feasible to try to bring non-resident supplies of low value goods and services into the GST system at this time.”

Productivity Commission Issues Paper

We would also take this opportunity to draw attention to the Productivity Commission’s own important preliminary understanding “...that the average value of parcels currently entering Australia and taking advantage of the low value threshold is less than \$100”.⁸

⁷ The Board of Taxation [Review of the Application of GST to Cross-Border Transactions](#) February 2010 pp.46-47

⁸ Productivity Commission [Economic Structure and performance of the Australian Retail Industry: Issues Paper](#) p.22

This means that even if the threshold was dramatically lowered, the impact in terms of GST levied on transactions (and Federal Government revenue) would be negligible although the costs placed on consumers, merchants and government agencies would be considerable.

No present case for change

In light of the available evidence, substantial past and independent reviews and Visa's commitment to providing the best consumer choice and merchant payment acceptance tools, we feel that there is not a clear case for any change to the level of the GST low value importation threshold.

Visa suggests that eCommerce is a comparatively small but growing proportion of overall retail sales and that this is reflective primarily not of the impact of the GST low value importation threshold but of increasing consumer confidence in the online retail environment, the increased use of a selection of innovative payment options developed by companies like Visa, wider choices in goods and services and competitive pricing.

It is almost certain that in addition to these factors the sharp rise on the Australian dollar vis-à-vis the United States dollar, the British pound and the Euro in particular, has had some impact.

Visa supports open and competitive markets, providing Australian consumers and merchants with an efficient, safe and secure payment system for their face-to-face online purchases of goods and services.

Attached are responses to the specific questions raised by the Productivity Commission in the Issues Paper in relation to online retail and Visa's specific responses.

Productivity Commission Issues Paper Online Retail Questions

Visa Responses

Productivity Commission Questions	Visa's Response
<p><i>To what extent has competition from overseas and Australian online retailers contributed to falling revenue growth experienced by Australian bricks and mortar retailers? What data supports this? Is this a trend which will continue?</i></p> <p><i>How is the growth in online selling impacting on retail profits? What is the quantitative evidence for this?</i></p> <p><i>What are the current impacts and likely future impacts of the growth of online shopping for employment, including regional employment, in the retail industry?</i></p>	<p>No comment, other than to observe that the available statistics illustrate that online retail represents only approximately three percent of all retail sales in Australia.</p>
<p><i>Why have Australian retailers been relatively slow to take-up online trading? What impediments are there to the greater use of online trading by Australian retailers? Are there impediments (other than consumer protection issues — see later) to the use of online retailing by Australian consumers?</i></p>	<p>From Visa's perspective in relation to payments, there are no payment system impediments that prevent Australian retailers from competing in eCommerce retail and Visa has, as outlined above, developed innovative platforms like <i>payclick</i> and the forthcoming Visa digital wallet to further assist eCommerce activity.</p>
<p><i>Are there any logistic concerns that have impeded the take up of online shopping? For example, are there any concerns relating to the costs, timeliness, effectiveness and efficiency of the delivery of purchased items by Australia Post and other courier and express freight services?</i></p>	<p>While Visa can't comment on freight logistics, from Visa's perspective in relation to payments, there are no payment system impediments that prevent Australian retailers from competing in eCommerce retail and Visa has, as outlined above, developed innovative platforms like <i>payclick</i> and the forthcoming Visa digital wallet to further assist eCommerce activity.</p>
<p><i>How significant is the impact of online trading on domestic retail businesses?</i></p>	<p>Visa observes the available statistics illustrate that online retail represents only approximately three percent of all retail sales in Australia.</p>

<p><i>What factors explain Australian consumers' willingness or reluctance to purchase online from overseas suppliers? What is the relative significance of these factors?</i></p>	<p>Independent research indicates that only 12 percent of consumers prefer to buy overseas.</p>
<p><i>How significant will online trading be for the Australian retail industry in the future? Is it likely that Australia will realise similar growth in market share for online retailing to that seen in the USA and Europe? What retail sectors are likely to be impacted the most by the growth of online trading? What new business models might be created by online trading?</i></p>	<p>Visa is not in a position to comment on likely growth rates across the eCommerce and face-to-face retail channels or across individual sectors in the eCommerce environment, other than to say as a payments technology company we remain fully committed to providing both consumers and merchants with the most innovative, secure and efficient payment methods across all retail channels.</p>
<p><i>What is the extent of international price differentiation in the global marketing of branded products which impacts on Australia? What other factors explain the differences in prices between domestically and overseas sourced identical products?</i></p>	<p>No comment.</p>
<p><i>Is the parallel importing of identical or very similar products from overseas suppliers an effective and sustainable strategy for local retailers to reduce their costs and allow them to compete more effectively with offshore online providers? In the future, will the much greater ability of both consumers and retailers to import directly from overseas, tend to erode the degree of regional price discrimination by international brand owners in certain product categories?</i></p>	<p>No comment.</p>
<p><i>Are there additional measures that could be taken by industry or governments to increase consumer confidence in the security of purchasing online?</i></p> <p><i>Are there any significant examples of problems with regard to the safety, quality or performance of goods purchased by Australians from overseas online traders? Where problems are experienced with online</i></p>	<p>Visa has called for security issues to be one area where the financial services sector needs to put aside competitive views and work to agree a base standard for Australian consumers. Visa has called on its peers to match the content of the Visa Seven Point Security Plan because security is a critical element in delivering a better payments system for Australia. We strongly believe that industry action to meet our new minimum standard will</p>

<p><i>trading, what avenues of redress have been pursued and how successful have consumers been in obtaining a satisfactory outcome?</i></p> <p><i>Are there adequate protections for Australian consumers purchasing goods from overseas websites online? If not, what can be done to improve consumer protection for online purchases from overseas websites or to better educate consumers to help them avoid detriment?</i></p>	<p>result in a better payments system for Australia and as a result a more secure eCommerce environment.</p> <p>One specific element of the Visa Seven Point Security Plan is known as Verified by Visa (VbV) which is an additional authentication mechanism to protect cardholders and merchants.</p> <p>Visa believes that merchants could increase consumer confidence in the security of purchasing online by implementing VbV more commonly.</p> <p>We also believe that industry should be in a position to manage this raising of security standards without government or regulatory intervention, which will in the longer term stifle innovation.</p>
<p><i>What evidence is there that Australian retail businesses are being adversely impacted by the low value importation threshold? To what extent does the threshold motivate Australian consumers to purchase online from overseas suppliers? What other factors explain the differences in prices between domestically and overseas sourced products?</i></p>	<p>There is no publicly available evidence to this effect.</p> <p>In light of the available evidence, substantial past and independent reviews and our commitment to providing the best consumer choice and merchant payment acceptance tools, we feel that there is not a clear case for any change to the level of the GST low value importation threshold.</p> <p>Visa suggests that eCommerce is a comparatively small but growing proportion of overall retail sales and that this is reflective primarily not of the impact of the GST low value importation threshold but of increasing consumer confidence in the online retail environment, the increased use of a selection of innovative payment options developed by companies like Visa, a wider choices in goods and services and competitive pricing.</p>
<p><i>How might continued growth of overseas online shopping affect existing border control and cost recovery arrangements?</i></p>	<p>No comment.</p>