

2011



Economic Structure and Performance of the Australian Retail Industry

Supplementary Submission of the National Retail Association Limited

The National Retail Association is Australia's largest and most representative retail industry association. Its core constituency is the national retail chains, the majority of whom are members of NRA, but its membership also embraces many small and medium Australian family businesses.

This supplementary submission addresses particular issues raised in other submission to the Inquiry.



NRA Supplementary Submission to Productivity Commission

Key Points

1. An understanding of the design features of the GST and its underpinning principles, including competitive neutrality and equity, support the elimination of the threshold.
2. The exponential growth in online shopping from foreign websites results in a rapidly growing leakage from GST revenue. It also suggests that the principles underpinning the operation of tariffs are increasingly being undermined as more and more products escape the application of duty. Additionally the growth emphasizes the inequity of the cross subsidization of customs fees and charges as Australian retailers (among others) pay not only their own import costs but also the costs of import of over 40 million low value items the majority of which are sourced from foreign online retailers.
3. Some submissions to the Productivity Commission are premised on the view that the cost of collecting GST, duty and customs fees will substantially exceed the revenue generated. However there does not appear to be any empirical evidence publicly available which establishes the “administrative convenience” argument.
4. Pending the publication of empirical evidence sustaining the “administrative convenience” argument, it is submitted that the Productivity Commission should proceed on the basis that the argument has not been made out, or alternatively, if the view is that it has been made out at some historical point, the Commission should acknowledge that the landscape has changed dramatically and a reconsideration of the argument is warranted.
5. Additionally there appears to be no evidence to suggest that any historical conclusions about the “administrative convenience” argument gave consideration to, or attempted to measure, the damage caused to the domestic Australian economy by the failure to impose a level GST, duty and custom fees playing field, and the consequences of this failure, particularly given that retail generates one of the highest multiplier effects of any industry sector in the economy. It is important that the Productivity Commission gives this matter full consideration.
6. NRA notes that the despite the global reach of certain organisations opposing the elimination of the threshold, and the extensive interface of these organisations with other jurisdictions, all such submissions avoided any disclosure or commentary about how their business practices deal with the operation of the low value threshold in other jurisdictions such as the UK, Canada, the European Union and New Zealand.

Submission of VISA

NRA notes that Visa does not make any self interest declaration. The Visa submission does not discuss the application by Visa of a 2.95% fee on all international transactions and the financial gain to be derived by Visa from the incremental growth in international transactions attributable to the on-going operation of the threshold.

Nor does Visa take the opportunity to support Australian retailers by discussing the feasibility of Visa collecting GST, duty and customs fees at the point of imposition of its fee on international transactions.

NRA notes Visa's rejection of such a proposition in a supplementary submission to the Productivity Commission and in particular NRA notes that in explaining its rejection Visa says that "it is noteworthy that Visa does not perform this role for any other jurisdiction globally".

If Visa were consistent in the articulation of its views it would acknowledge that the continued operation Australian low value threshold is not sustainable by reference to global practice.

Submission of CAPEC

CAPEC is an organisation representing the interests of UPS, DHL, FedEx, and TNT.

The CAPEC submission indicates that the industry has global revenues of \$US70Billion and it makes over 5 billion shipments annually. CAPEC members employ 800,000 employees globally and 6,200 employees in Australia. They own 1500 aircraft and 170,000 trucks and delivery vehicles. Some further information about CAPEC's constituents is set out below:

(a) UPS – United Parcel Service

UPS is the world's largest package delivery company, transporting some 15 million packages and documents per business day throughout the US and to more than 220 countries and territories. Its delivery operations use a fleet of about 93,000 motor vehicles and about 500 aircraft. UPS employs approximately 400,600 employees.

The Atlanta-based business delivered nearly seven billion items throughout more than 200 countries in 2006. Its main hubs are in Louisville, Kentucky; Cologne, Germany; and the Philippines.

(b) DHL

DHL Express is a division of Deutsche Post providing international express mail services.

In 1998, Deutsche Post began to acquire shares in DHL, reached majority ownership in 2001, and completed the purchase in 2002. Deutsche Post then effectively absorbed DHL into its Express division while expanding the use of the DHL brand to other Deutsche Post divisions, business units and subsidiaries.

DHL Express shares its DHL brand with other Deutsche Post business units such as DHL Global Forwarding and DHL Supply Chain. DHL Express employs approximately 275,000 employees worldwide

(c) FedEx

FedEx Corporation is a logistics services company based in the United States with headquarters in Memphis, Tennessee. Its operating companies include FedEx Express, FedEx Ground, FedEx Freight, FedEx Office, FedEx Custom Critical, FedEx Trade Networks, FedEx SupplyChain and FedEx Services. The company employs 140,000 employees.

(d) TNT

TNT N.V. is an international express and mail delivery services company with headquarters in Hoofddorp, Netherlands. In the Netherlands, TNT operates the national postal service and the group also offers postal services in eight other European countries, including the UK, Germany, Italy and Belgium. TNT's mail division recorded sales of about €4.2 billion in 2009.

The company's express delivery services unit, known as TNT Express, has fully owned operations in 65 countries and delivers documents, parcels and pieces of freight to over 200 countries. TNT's express division recorded sales of about €6.0 billion in 2009. TNT employs approximately 155,000 employees.

Estimates of Taxes, Duties and Charges Foregone

CAPEC asserts that in 2009-10 44.067 million low value consignments entered Australia valued at \$1.748Billion. This suggests an average value per consignment of \$39.68. (CIE Page 12)

However for the 36 million items entering Australia by POST – there is no record of the value of items. Hence CAPEC's estimate of the average value could be wide of the mark.

CAPEC says that for the express freight sector, based on self assessed clearances – over 8million low value consignments valued at \$874M entered Australia in 2009-10. This suggests an average value per item of \$109.25.

If this value were used to assess the total value of low value consignments, then the 44.067 million low value consignments would be valued at \$4.814Billion. Given that most indicators suggest a growth rate of at least 10% per annum this amount will rise to at least \$5.825 Billion for the 2011-12 year.

From this we can determine that GST lost could be in the order of \$600M by June 30, 2012. Customs fees lost and duty lost must be added to this amount to determine the cost of maintaining the current regime.

CAPEC's sampling (page 14 of CIE) suggests that 41% of low value imports fall into the category "textile and fashion". Clothing imports generally attract a duty of 10% - hence it can be assumed that a significant proportion of low value imports not only escape GST but also escape duty. If 41% of SAC processed low value consignments (\$874M) were to attract 10% duty - then \$36M in duty would be foregone in this category alone. If we applied an average 3% duty component to 36 million postal items valued at \$109.25 per item, then duty of the order of \$118M would be foregone through the postal system.

These estimates suggest that around \$150M in duty may be lost each year under the current customs and tax regime.

We make no specific estimate of the revenue foregone through the failure to collect customs fees on low value imports. If we applied the Canadian practice of imposing a handling fee of \$CAN8.50 for each item imported through international mail, then fees foregone through the Australian postal system would be in the order of \$280M (presumes threshold eliminated). Consequently it is apparent that the total amount of GST, duty, and customs fees foregone in a calendar year could be approaching \$1Billion.

Cost of Collection

CAPEC suggests that the customs cost of clearing low value consignments is \$55 per consignment (ie per item). CAPEC then estimates the cost of eliminating the threshold by multiplying the \$55 by 44 million (being the number of low value consignments entering the country in 2009-10.) This produces a total Customs cost of \$2.433 Billion. CAPEC then suggests that the elimination of the threshold will cost their members another \$1.322Billion.

We note that CAPEC's estimated cost of eliminating the threshold of \$3.755Billion per annum is the equivalent cost of employing 90,000 retail supervisors (allow annual labour cost of \$41,600 per annum per person).

Important Notes on Cost of Collection Estimates

1. CAPEC's calculations assume that the elimination of the threshold will not result in a diminution of low value imports. We would expect that there will be a very substantial reduction.
2. CAPEC's calculations assume that, with the elimination of the threshold, the customs regime will not change and that all consignments will require a FID (a full import declaration). We do not expect this outcome and believe that substantial changes would be made to current practice if the threshold is eliminated. Given the exposure of CAPEC members to the operation of low value thresholds in other jurisdictions, it is likely that CAPEC members could contribute extensively to a discussion on alternative border processing methods.
3. We note that in their response to the Productivity Commission, The Australian Customs and Border Protection Service indicated the following in their key point summary on page 1 that:

7. *The development of a simplified electronic solution would have particular benefits for private importers, as an alternative to extending current arrangements to require former manual declarations for low value goods. This would require additional funding to develop systems and provide resources for the collection of the additional GST (and, potentially, duty), and the implementation of a cargo intervention and compliance strategy for revenue collection for low value goods.*
4. We note that despite the extensive interface that CAPEC's members have with different jurisdictions around the world, no information is provided in the CAPEC submission about customs and border practices applying in other countries, particularly in jurisdictions where the low value threshold is much lower than what it is in Australia. For example in Canada the threshold is set at CAN\$20 and, except for gifts not exceeding CAN\$60, all items valued above the threshold are subject to duty, GST (or its equivalent), and customs fees. Different procedures apply between international mail items and air cargo as is the case in Australia.

5. The Canada Border and Services Agency explains the process for international mail items as follows:

Any item mailed to Canada is potentially subject to duty and taxes. Although the GST was designed as a tax on the consumption of goods and services within Canada, imported goods are also subject to the GST because this ensures fair tax treatment for domestic products. Therefore, unless specifically exempted, you must pay the 5% GST on items you import into Canada by mail.

6. For mail items residential customers in Canada who, for example, import goods from the US are required to pay either GST, Harmonised Sales Tax or Provincial Sales Tax. Canada Border and Services Agency collects these taxes on behalf of the relevant governments. The taxes range from 5% to 13%. In addition, the resident must pay Canada Post a handling or processing fee of \$8.50 Canadian. (1CAD\$ = .9518 AUD\$).

If a resident has to pay duty or tax or the Canada Post handling charge, the relevant information is shown on a form (Form E14) which is attached to the mail item when it is delivered to the resident. All amounts owing must then be paid by the resident at the time of delivery.

7. The relevant information is found on the website of the Canada Border Services Agency at <http://www.cbsa-asfc.gc.ca/import/postal-postale/duty-droits-eng.html>
8. Relevant to costs of collection we note that for express courier companies, the Canada Border Services Agency operates the "Courier Low Value Shipment Program". This program streamlines the reporting, release and accounting procedures for goods valued at less than CAN\$1,600 (with some exceptions). It is presumed that CAPEC's members participate in the low value shipment program and are very familiar with the procedures for the collection of GST, and harmonised sales tax etc. This information may assist the Productivity Commission in its deliberations.

Information about the enforcement of the low value threshold can be found here: <http://cbsa-asfc.gc.ca/import/courier/lvs-efv/menu-eng.html>

9. By way of further example NZ also has separate entry arrangements for "*Low value import consignments*". The working definition of a low value consignment is one falling below the value required for reporting on a standard import entry ie NZ\$1,000. Low value consignments must still be cleared by Customs, however reporting of low value consignments to Customs is generally through a Simplified Import Entry (commercial importers) or a Personal Import Declaration (private importers). This reporting enables the assessment and collection of duty on consignments to which the de minimis does not apply, ie with a value around \$400 and up to \$999.
10. The Issues Paper prepared by the NZ Customs Service related to the recent review of the de minimis in that country discloses a lower customs clearance cost structure, at least in certain cases, than that referred to in the CAPEC submission dealing with "Resource Costs to Government" (Page 21 – CIE). For example, in referring to Private Import Declarations, the Issues Paper states:

Currently an entry in the form of a PID generated out of the IMC just over the threshold for the de minimis, say \$61 in duty is payable, will generate costs for Customs of about \$26 on average of which \$22 will be met by the consignee through a processing fee. These costs do not just relate to Customs revenue collection function but encompass all aspects of the risk assessment and clearance process. The extent of the importers' costs of clearing the goods on top of the processing fee will depend largely on whether a broker is engaged. Our experience is that most revenue-only clearances are handled by the private importer without the services of a broker.

Submission of EBAY

We note that the Ebay submission is totally silent in contributing to a discussion about the interaction of its business model with other jurisdictions where a vastly reduced low value threshold is in operation.

This is particularly relevant given Ebay's assertion that there is "no case for a reduction in the GST low value import threshold" because of (inter alia) "the significant barrier to international trade that such a move would incur".

Ebay did not go on to establish how the low value threshold operating in the UK or Europe or Canada or NZ was generating a significant barrier to international trade.

ACMA Research

A number of submissions have drawn attention to an ACMA research paper. For example VISA used the ACMA research to suggest that "convenience", not "price" was the dominant consideration for consumers in deciding to shop online.

It is important to note that the ACMA research broadly investigated consumer e-commerce activity and was not limited to "online" retail shopping activity. The report concluded that "*banking transactions*", "*paying bills*" online and "*purchasing products and services*" online were the most popular e-commerce activities performed by respondents.

Figure 1 of the ACMA research showed (with multiple responses allowed) that the principal uses of ecommerce by respondents fell into the following categories:

Banking transactions online: 70%

Paid bills online: 68%

Purchased products or services online: 61%

Purchased accommodation or travel online: 58%

Looked at buying, selling, or renting property online: 41%

Accessed government services online: 37%

Figure 9 defined what was included in the "goods and services purchased online" category. It showed that 56% involved purchases of "*travel goods including tickets and accommodation*" and 43% involved purchases of "*event/concert/movie tickets*".

NRA submits that it is not surprising that when respondents were asked to nominate their reason for purchasing online – 74% cited "convenience". Clearly "convenience" is the dominant factor in completing banking transactions online or in paying bills online or in booking airfares online or in buying tickets for events online etc.

It is flawed reasoning to suggest that, when it comes to retail shopping online, the ACMA research establishes that consumers are motivated by "convenience" not "price."

Australia Post

Australia Post is the principal handler of low value imports into Australia. It is estimated that Australia Post handled approximately 36 million low value consignments in 2009-10.

As we understand it, under international agreements, international mail is transported with a paper declaration affixed to the exterior of each article. The declaration must include details of the sender, the recipient, a description of the goods, and the value of the goods.

Despite this information being available, as we understand it, Australia Post does not collect data nor record information about low value imports.

Australia Posts' processing of international mail items is regulated in part by a memorandum of agreement entered into between Australia Post and Australian Customs and Border Protection Services.

It appears that under the memorandum, a substantial number of international mail items are allowed into Australia without any form of x-ray security screening or surveillance. These are items classified by Australia Post as "low risk" items. It would be helpful to know how many items are typically categorized "low risk" and what criteria are used to classify items as "low risk". Australia Post should also be required to report extensively on the nature of goods and the value of goods entering the country without any formal clearance and without any significant security assessment.

NRA submits that, in "streamlining" entry arrangements for low value imports, Australia Post is playing a key facilitative role in the growth of foreign online retailers at the expense of Australian online and Australian bricks and mortar retailers.

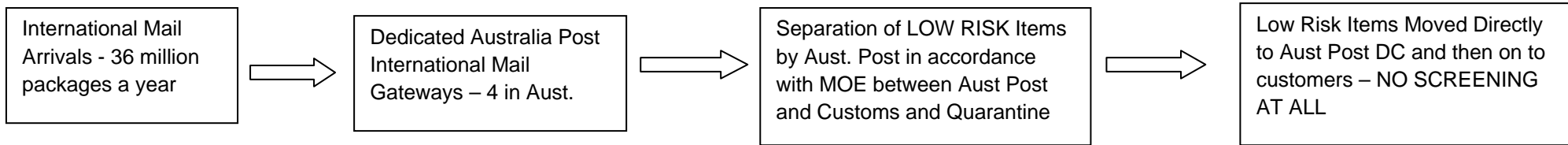
Also under international agreements, Australia post is restricted in what charge it can impose for the delivery of international mail items within Australia. The effect of these arrangements is that Australian taxpayers, including Australian retailers, are subsidizing the transport cost of items exported to Australia by foreign online retailers.

Australia Post is an Australian Government business enterprise, wholly owned by the Australian Government and the Australian people.

As a statutory body it is appropriate for Australia Post to explain to the Productivity Commission and the Australian retail sector how its statutory objects can be reconciled with practices which will have the effect of facilitating the growth of foreign online retailers at the expense of Australian retailers with consequences for business viability and job opportunities in Australia.

A flow chart showing how international mail is processed on entry to Australia is set out on the next page.

Processing of International Mail Items



A paper declaration must be attached to each mail item showing details of the sender and the recipient, a description of the contents and the value of the goods.

The number of items assessed by Australia Post as “Low Risk” is not known.
 The criteria used to decide a “low risk” rating is not known.
 The description of goods and the value of goods in the “low risk” category is not known.

For a small proportion of articles – Australia Post provides a paper manifest listing articles and their values. The circumstances are not known.

All other items placed on conveyor belt for x-ray screening and assessment

Items identified as a suspected border risk or revenue liability (over \$1,000) are referred for examination or other action

Mail articles that are not in the “suspected” category are released to Australia Post for domestic delivery

These items are placed on a moving conveyor belt for assessment – assessment is “random” in nature and subject to speed of conveyor belt, number of staff involved etc..

Customs staff are present only for a proportion of the assessments

Customs assessments include the identification of items above \$1000 threshold, however this assessment is done in conjunction with assessment of other risks and there is a “very small window of time” for staff to review revenue information - priority in screening is around HIGH RISK goods

Customs will inspect 20M mail articles in 2010-11 (no definition of “inspect” available – may include cursory review of labels or may refer to physical inspections)