

1 July 2011

Retail Industry Inquiry  
Productivity Commission  
GPO Box 1428  
Canberra City, ACT 2601

Dear Commissioner,

Thank you for the opportunity to provide a submission to the Productivity Commission's inquiry into the Economic Structure and Performance of the Australian Retail Industry.

This submission by BB Retail Capital is in support of the submissions made by the Australian Retailers Association (ARA) and Fair Imports Alliance to the Inquiry and the aim of this letter is to provide our view of the issues currently facing the Australian retail sector and highlight key areas where we believe reform is required to ensure that the retail industry operates as a neutral competitive system and not one where some players are disadvantaged over others due to government regulations and requirements.

As Background, BB Retail Capital is a private investment company with interests in a number of successful global retail brands and retail (bulky goods) shopping centres. The company holds positions in: diva and Lovisa - two brands in women's accessories; BNT, Australia's lingerie and sleepwear retailer; Dusk, the candle and gift retailer and homeware retailer Adairs. Combined the retail businesses have over 600 stores across Australia and employ a team of more than 4,500 employees.

Retailers in Australia are currently experiencing slower sales growth while costs of doing business have increasingly become more onerous. In times when trading levels are deflated it is imperative for businesses to remain cost effective, yet there are a number of factors affecting the productivity and competitiveness of the retail industry in Australia and therefore creating an additional burden for retailers as they trade through these challenging economic times.

In our view, the Australian retail industry is no longer on a level playing field. With the influx of international e-tailing, Australian retailers are disadvantaged due to the imbalance of GST and duty taxation.

Australian retailers are now facing increasing competition from International brands. The strong Australian dollar and weak US economy has seen many international retailers ship products to Australian consumers as they seek new markets such as Australia as a platform for growth. However as they compete head to head with Australian retailers it is evident that they are not competing on a level playing field.

Australian retailers are significantly disadvantaged by overseas retailers not having to charge and pay GST on any purchase under \$1,000 by an Australian customer; they are also not required to pay import duties which, on most products into Australia, are around 5-10%. Therefore Australian retailers have to charge an extra 15-20% over and above international retailers to cover this additional tax. This duty and GST loophole places overseas retailers with a clear advantage to local retailers.

Other economies such as China, UK and Canada have created a "level playing field" by ensuring that all overseas retailers are subject to the same VAT and duty regulations as local retail players. There is no reason why Australia should not implement a similar policy to create a neutral competitive retail system.

Without the Government taking significant action in restructuring the Retail Industry, the impact on Retailers and the Economy as a whole will be significant. We will see many more retailers going out of business and a significant loss of jobs in the retail sector. It is our recommendation to the Productivity Commission to revise the current system to allow for Australian retailers and e-tailers compete on par with their overseas counterparts and to create an efficient and fair retail economy.

Thank you for the opportunity to respond to the issues currently under review by the Commission. We hope that you will consider the matters that we raise, and we look forward to the findings of the Commission.

Yours Sincerely

Nico van der Merwe  
Chief Financial Officer -BB Retail Capital