

AUSTRALIAN GOVERNMENT – PRODUCTIVITY COMMISSION

Response to the Draft Report
Economic Structure and Performance of the
Australian Retail Industry



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Bicycle Industries Australia Ltd (BIA) represents bicycle manufacturers, importers and wholesalers within Australia.

The BIA was formed with the expressed aims;

- To foster the interests of the Australian Bicycle Industry
- To promote sound and ethical trading and commercial practices

The Australian bicycle industry comprises approximately 500 importers, manufacturers and wholesalers, along with approximately 1000 specialised retail stores.

The BIA is a member of the Fair Imports Alliance (FIA). As a member of the FIA we support all points of discussion which has been raised through the joint submission.

Further to the points which have been raised within the FIA response paper, the BIA would like to raise issues more specific to the operations of the industry.

REPONSE TO THE DRAFT REPORT

DRAFT RECOMMENDATION 4.1

The ABS should monitor and report online expenditure by Australian consumers both domestically and overseas either by upgrading existing surveys or conducting new surveys. The ABS should design surveys so they can disaggregate online spending with 'multi-channel' establishments and 'pure play' online retailers. The ABS should also redesign its surveys to show levels of employment associated with online retail sales as reflected by the size of the workforce of pure play retailers and the online divisions of multi-channel retailers.

Bicycle Industries Australia supports this recommendation and believes that steps should be taken to implement it without undue delay. With the changing nature of the retail environment occurring at a swift pace, the BIA agrees that there needs to be coordinated activity to track record and report the growth and size of the domestic online and offshore online markets to allow governments and regulators to access accurate information and properly deliberate on appropriate policy responses.

We believe this is critical as the draft report estimated a figure of 4% of all sales completed by Australian consumers done through Australian online sites with approximately 2% of all sales completed from foreign online stores.

The PC also identified that this percentage varies between markets, with books and DVD's as the largest online segments of the market.

These figures, under-represent the size of the impact of foreign online sales to the bicycle industry. Figures released by The Quantium Group in July 2011 identified that the online sales of bicycles and bicycle related products grew from a rate of 8.9% of the market share in January 2010 to 19% in June 2011.

In that time the online domestic share of this market grew from 2% to 3%, indicating that by June 2011, the Australian bicycle market was losing 16% of all sales to foreign retailers.

DRAFT RECOMMENDATION 6.1

There are strong in-principle grounds for the low value threshold (LVT) exemption for GST and duty on imported goods to be lowered significantly, to promote tax neutrality with domestic sales. However, the Government should not proceed to lower the LVT until it is cost-effective to do so — that is, at a minimum, the tax revenue should exceed the full costs of collecting it.

Bicycle industries Australia supports this recommendation. The BIA strongly supports the adoption of a tax neutral policy on imports of any value.

The BIA acknowledges the Productivity Commission's comments in relation to the efficiency of the Customs and Border Protection Service and the handling of inbound parcels by air and sea cargo or international mail.

The BIA is alarmed that a segment of the economy (retail) will be significantly disadvantaged by the inefficiencies of a government department. This is in fact penalising one of the major employers of Australia because of the government's poor performance. The BIA acknowledges the impact of the cost of implementing a lower threshold, but question whether the inquiry has looked at the extended costs if the threshold is not reduced on employment, retail based tax income to the government and the requirement of government support programs to the community.

AUSTRALIAN STANDARDS

The BIA is extremely disappointed that the report did not identify the cost of government bureaucracy associated with Australian Standards.

The Australian bicycle sector, like many Australian sectors are subject to several Australian Standards, two of which are mandatory and four main standards which are voluntary.

To utilise the current standard AS/NZS 2063:2008 bicycle helmets, as an example, an individual company in Australia has considerable costs to meet the testing requirements of this standard.

ITEM	COST	EXPLANATION
Application Fee	\$10,620 + GST#	For each new premise/factory utilised or for the introduction of new testing protocol (as was required for new standards in December 2009)
Annual Fee	\$9,520 + GST*	Annual fee paid to the testing agency
Type Fee	\$1,100 + GST^	Testing of the form of the helmet
Engineering Fee	\$375 + GST^	Engineer report on each size of each type of helmet
Total cost incurred in standards testing prior to importing a single helmet	\$21,615 + GST	
Batch Test	\$215 + GST	In every batch of 400 helmets, 4 must be tested to destruction
Approval Labels	\$278 + GST	Per 1000 labels

To illustrate the point, a simple but current example of a new helmet onto the market.

EXAMPLE - Both the Australian supplier and the foreign online store purchase 2,500 helmets for \$100 from the manufacturer for distribution within Australia.

The helmets are in 4 styles and feature a range of 3 sizes in each style.

The costs to the two suppliers are;

ITEM	FOREIGN COST	AUSTRALIAN IMPORTER COSTS	
Purchase Fee	\$250,000	\$250,000	
GST on purchase	\$0	\$25,000	
Standards Application Fee	\$0	\$10,620 + GST	
Standards Annual Fee	\$0	\$9,520 + GST	
Standards Type Fee	\$0	\$4,400 + GST	\$1,100 Per model of helmet
Standards Engineering Fee	\$0	\$3,000 + GST	\$375 per size per model
Standards Batch Test	\$0	\$1,505 + GST	\$215 per batch of 400 helmets
Standards Approval labels	\$0	\$834 + GST	\$278 per 1000 labels purchased
TOTAL COST AFTER GST AND APPROVAL	\$250,000	\$307,866.90	

These are the base costs and rely on the helmet being able to pass all engineering tests without modification. If changes to the helmet are required (which would occur in the majority of helmets) greater costs are incurred by the Australian importer as these changes are specific to Australian Standards.

Due to the current standards, introduced in 2008, the majority of helmets constructed for European and American markets do not pass Australian testing protocols.

The laws regulating these standards are overseen by the Australian Competition and Consumer Commission (ACCC). If an Australian retailer supplies a helmet that has not been

tested to current Australian Standards, and labelled appropriately, that retailer faces a fine of up to \$1.1 million and the individual staff member faces a fine of \$220,000.

The ACCC has indicated they have no authority over offshore online sales sites, which therefore allows these sites to sell helmets into Australia which have not been tested to meet Australian Standards. These helmets are illegal to use on Australian roads.

Further to the direct costs of GST and Standards, in the example above, during the testing process, the Australian importer has been required to supply 96 helmets for testing to destruction.

This now means the Australian importer has 2404 helmets available to sell which has cost them \$307,866.90 or \$128 per helmet.

The foreign retailer has 2500 helmets available to sell which has cost them \$250,000 or \$100 per helmet.

The financial cost of this process is compounded by the forced lost efficiency of time consumed in modifying helmets for the Australian market, and processing the factory and the helmet to ensure they meet Australian standards.

In our original submission, the BIA recommended the enforcement of Australian standards and this is still critical for a number of retail sectors.