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Retail Industry Inquiry  
Productivity Commission

### **Comment on Draft Report**

We welcome the Draft Report on the *Economic Structure and Performance of the Australian Retail Industry* and wish to comment on the findings in relation to the low value threshold (LVT) for exemption from GST and duty on imports.

**1. We affirm the Commission's conclusion that, in principle, the LVT should be reduced to ensure tax neutrality. However we are concerned that the creation of a task force to investigate the system of processing parcels will result in a significant delay before the achievement of such tax neutrality on imports, if at all.**

It is encouraging that the Commission supports the concept of tax neutrality in relation to imported goods. This is fundamental if domestic retailers are to compete against overseas retailers (who, as discussed throughout the report and in the first round of submissions, often also enjoy other competitive advantages). Such equality will help domestic retailers compete in store, and encourage and support their transition into the online marketplace.

We also support the finding of the Commission that there is a need to increase the efficiency of the parcel system so as to facilitate a decrease in the LVT.

We encourage the Commission to propose a tight reporting timetable for the task force (that is, more specific than "2012"). Preliminary submissions for this enquiry detailed many of the countries to examine and efficient systems from which Australian can learn. As such, we suggest that the task force has a strong base from which to begin and should commence as soon as possible and report in the first half of 2012.

We are disappointed that the Commission has not set any timetable for LVT reduction or given a clear direction on the ultimate level of the LVT. We do not see the establishment of the postal system task force as a reason to avoid completely any such recommendations. Without such recommendations, after the postal system task force reports on potential methods for improving efficiency, questions regarding the level and timetable for the LVT will remain unanswered. The time frame for any changes is thus extended, and to avoid this unnecessary delay we encourage this Commission to make clear recommendations on the timetable for changes and the level of the LVT. This is particularly important given the rapidly evolving nature of the online retail sector.

**2. The Commission identifies tax neutrality and the minimisation of deadweight loss to the consumer as being the guiding principles of LVT reform. However the assumption that the costs of collection of tax and import duty revenue must be exceeded by the collected revenue should be reframed and any differential is not a pure deadweight loss.**

We question the assumption that the revenue collected by any lowering of the LVT must exceed the costs of the policy change. While this would be desirable, it oversimplifies the cost/benefit calculation by characterising any excess of costs over benefits as a deadweight loss to the community.

The calculation of costs and benefits, which the Commission should undertake, needs to include such measures as:

- Loss of tax revenues from alternative sales - if a consumer purchases an item from an overseas retailer, does not pay GST or duty on that item due to the LVT, and could have purchased that item from an Australian retailer, then there is an opportunity cost equivalent to the GST and duty that would have been paid by the Australian consumer and the importer/retailer on the domestically-sold item.
- Loss of tax revenues as Australian retailers close - as competition from overseas retailers grows, domestic retailers are being forced to exit the market. There is a reduction in taxes paid by businesses, as well as an impact on income tax revenues as redundant employees find themselves out of work or, at least, taking an overall yearly reduction in income as they are without work for a transition period.
- Australian consumer dollars going overseas - the fact that Australian consumers are sending their money outside of the Australian economy in exchange for goods does have an impact which the Commission needs to take into account in their comparison of costs and benefits of the LVT.

We do not have access to sufficient data to provide a conclusion on these issues, but suggest that the draft report by the Commission oversimplifies the cost/benefit equation and request a more comprehensive calculation be included in the final report.

We concede that the likely way forward, at least in the interim, is that revenues collected will need to cover the administrative costs of collection. In that case, we encourage the Commission to recommend an immediate transition to a 'break even' level for the LVT. This could be a transition measure until the efficiency of processing systems is improved and the LVT can be further reduced so as to achieve tax neutrality.

**3. Given that the Commission recommends postponing any action to significantly lower the LVT, and in light of the fact that the Australian retail industry is being adversely impacted by overseas retailers selling online, the Commission should explore other policy options to assist small retailers, in particular, to compete in this environment.**

The Commission has essentially reported that, although they hear the concerns of the retail industry (particularly small retailers) and they can see that it is hard for Australian businesses to compete with the prices, range and service offered by large foreign competitors, there is nothing that can immediately be done to ease the pain.


We suggest further exploration of the general recommendation that “Government should ensure that any anti-competitive behaviour which inhibits retailers from purchasing competitively is addressed” (with regards to ensuring international suppliers don’t set regional pricing for Australia above their pricing for other countries).

We also suggest the development of initiatives to enable and encourage small businesses to invest in significant, innovative online retailing initiatives. This may take the form of grants or tax credits, though we caution that any such program needs to be realistic in its assessment of the costs (physical infrastructure, software and system development and human capital requirements) and ‘token’ gestures should be avoided.

In particular, we note that our sector (bicycle retailers) was strongly represented in submissions to the Commission. We take this as an indication of both the size and importance of the sector locally, as well as the depth and breadth of the impact that overseas online retailers are having on our industry. The draft report acknowledges that the bicycle wholesale and retail sector is one of the specific sectors “particularly affected” (p. 152). We encourage the Commission to take into account the specific industries that were identified as being particularly impacted by competition from overseas online retailers and to provide some recommendations for the benefit of those industries (as distinct from the retail sector as a whole).

As there was no public hearing planned for Brisbane, we are unable to participate in a public hearing. However we are happy to expand on this or our initial submission, or to answer any questions, in order to assist in the development of the final report.

Regards



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