



1 September 2011

Mr Philip Weickhardt
Commissioner
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Commissioner

eBay welcomes the Commission's draft report *Economic Structure and Performance of the Australian Retail Industry*, which makes a valuable contribution to the public policy debate on the implications of globalisation for the retail industry and policy settings.

eBay believes the draft report provides insightful and thoughtful analysis of the major trends and issues influencing the future of the retailing industry in Australia. eBay appreciates the rigorous analytical approach that the Commission is taking as it focuses on the key issues and develops its final recommendations to Government.

Through this inquiry, important issues about the future shape and vitality of retailing are being canvassed and evaluated. It has put the spotlight on the growing demand for online shopping and the modernisation of retailing throughout the world. Australians want to shop online because it empowers consumers with more choice, information, convenience and value. Yet, many traditional domestic retailers have not invested to meet the demand by Australian consumers for modern, multi-channel shopping.

eBay believes that the consumer should be at the centre of policy-makers' consideration of the implications for the retail industry and policy reform.

In focusing on consumer interests, eBay believes the Commission's final report would benefit from additional evidence-based study in three areas affecting consumers. The core issues eBay would like to see investigated and considered more deeply are:

- The costs to consumers of lowering the GST low value threshold (**LVT**)
- The impact on consumers and online retailing of restrictive distribution practices, we understand this has been referred to the ACCC for consideration.
- The importance to consumers of reducing postal costs and upgrading Australia's postal delivery infrastructure to world standards

These areas are explained further below.

1. Costs to consumers of lowering the LVT could be over 40%

eBay agrees with the Commission that public policy analysis of the LVT must examine the overall economic benefits and costs of any change. However, further study and any policy setting should focus not just on administrative costs to Government but also on the direct imposts on consumers in the form of both GST of 10% and all ancillary costs incurred on items above the GST LVT.

When a consumer imports an item above the LVT they incur significant ancillary costs:

- *Customs duty* – 5% of customs value (some goods are exempt)
- *Customs cost recovery charge* – This is a fee of \$48.85 charged by Customs to recover costs of processing import.
- *Agent's processing fee* - Fee charged by local agent to lodge import declaration and clear good through customs. Industry sources indicate this fee would be \$80 – 90 at low end.
- *GST* – 10% of the value of the taxable importation (including item value, duty, shipping charge & agent's processing fee)
- *Costs of delay in delivery* – estimated effective tax of 0.8% per day for consumers buying an item above the threshold value (Peterson Institute - see below)

If the LVT was lowered to \$500 and a consumer imported a \$500 laptop (which does not incur customs duty unlike many goods) from the United States, they would incur an additional \$211.75 (GST plus ancillary costs), an effective tax rate of over 40 percent¹. The effective tax rate would be even higher for goods subject to duty.

The [Peterson Institute for International Economics Report June 2011](#) recommends increasing LVT internationally based on the significant ancillary costs to consumers of a lower threshold, and draws support from the OECD's recommendations that members consider expanding their tax and duty free thresholds to simplify the arrival of low value shipments.

eBay suggests that before recommending any changes to the LVT, the Commission should consider the full costs to consumers, and not just administrative or government transaction costs. In identifying the impacts on consumers, the concept of 'tax neutrality' is less relevant than 'effective tax neutrality'. Effective tax neutrality would incorporate the totality of additional costs that a consumer would bear if the threshold is reduced. eBay believes that an effective tax rate of over 40% on imports such as laptops does not achieve tax neutrality and would be detrimental to consumers.

eBay would be pleased to undertake research on the consumer cost of a lower LVT, and to share relevant data with the Commission.

2. Impact on consumers and online retailing of restrictive distribution practices

eBay is pleased that the Commission has referred concerns relating to restrictive distribution practices to the ACCC and considers that there is merit in more in-depth study by the ACCC into the effect on consumer choice and online retailing of restrictive distribution practices by some traditional retailers, manufacturers and suppliers. These practices may inhibit many sellers from offering their products online and weaken competition in the retail market.

For consumers, the barriers created by such restrictive distribution practices, combined with the delay or reluctance of traditional domestic retailers to launch online sales channels, result in limited domestic product range and supply. This frustrates their capacity to support Australian retailers and drives their spending offshore where product range is superior, and online shopping is more advanced and consumer-friendly.

This problem has also been identified by eBay sellers as an issue of concern. eBay's Online Business Index survey (March 2011) showed that a key success factor for online businesses is the ability to sell through a variety of different channels. On average, eBay sellers use 2.4 sales channels (2.5 in 2010) with eBay the principal channel. Survey respondents reported that

1. For a \$500 laptop, average shipping costs on eBay from US is \$74 (source: eBay analysis), agents fees would be \$85 (industry source) and there is no customs duty. GST would be \$65.90 (10% of \$659). The Customs cost recovery charge would be \$48.85 (source: Customs). Adding costs of the delay of \$12 (3 days) (Peterson Report 2011), the total cost would be \$211.75, an effective tax rate of of 42.35%.

pressure from manufacturers and suppliers is widespread, with 78% of respondents experiencing difficulties of some kind, either occasionally or frequently. The most common difficulties involve manufacturers and/or suppliers trying to restrict businesses from selling their goods online or on particular websites (reported by 35% of businesses), followed by manufacturers and suppliers imposing conditions on businesses that wish to do so (reported by 28% of businesses). Additionally, sellers have faced issues with manufacturers and suppliers requiring them to sell their products at a particular price online (reported by 25% of businesses).

eBay is also aware of situations where local distributors and sellers have had pressure applied by prominent Australian retailers to cease selling products on online sites such as eBay.com.au, in competition to the retailer's own channels. The highly concentrated Australian retail environment means such behavior can create considerable pressure on distributors and sellers, who have limited other retail distribution channels locally.

It appears that restrictive distribution practices may be a significant barrier to competition, to growing ecommerce in Australia and to modernising the Australian retail industry in line with other advanced countries. This warrants further attention by the ACCC and eBay considers it important that the results of the ACCC's investigation be factored into any proposed policy reform.

3. Importance of reducing postal costs and upgrading Australia's postal delivery infrastructure to world standards

Deficiencies in the domestic postal infrastructure add to the barriers facing consumers and domestic retailers. In its draft report, the Commission recognised the imperative to address inefficiencies in Australia's postal delivery systems. eBay welcomes your attention to this major reform that will better facilitate both online and offline retailing.

eBay welcomes the proposed study by a taskforce of experts drawing on advice from Customs, Australia Post and express carriers, to investigate a new approach to processing parcels, particularly international parcels. Reform is important in order to facilitate shipping of increased parcel volumes associated with the growth in online retailing. Postage inefficiencies should not impose additional barriers to trade or operate to protect the domestic industry from import competition.

The Peterson Institute Report noted that Australia ranks only 18th in the Top 20 Countries Global Logistics Performance Index ranking, which takes into account processes and systems relating to customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness.

eBay's research highlights that Australian online businesses believe postage costs are limiting their growth. A recent survey of 1000 respondents operating on eBay.com.au details shipping cost and reliability comparisons that are not favourable for Australia. However the study also shows that given the right logistics solutions, there is a vast opportunity for continued ecommerce growth.

Based on its global experience, eBay suggests that Australia's domestic postal infrastructure, while improving through innovations made by Australia Post and express carriers, requires investment to upgrade and make cost-competitive the domestic postal delivery and tracking services to meet increasing consumer expectations and assure customers speedy delivery of the goods they buy online.

eBay data suggests that the global shift in consumer expectations towards tracked, easy and affordable shipping is already happening in Australia. Consumer and business demands on postal services will rise as the National Broadband Network enhances online retailing opportunities and Australia's postal infrastructure will need investment to respond effectively.

eBay has been cooperating with Australia Post to deliver improved, cost-effective parcel options for eBay sellers and buyers. In eBay's view there is significant scope to make improvements in the domestic postal systems but it will require investment in infrastructure if Australia is to bridge the gap between Australian systems and best practice standards elsewhere.

eBay hopes that the Commission's final report reflects the importance of this structural reform and the need for a review aimed at identifying the major infrastructure gaps, priority areas for attention, and potential solutions.

In Conclusion

eBay supports the Commission's evidence-based approach to the issues. The draft report has provided a more factual basis for policy-makers, industry and consumers to consider the key issues.

eBay supports the Commission's observation that Government's role is not to shield the industry from intense global competition – which has significantly benefited Australian consumers - but to remove constraints which are hindering industry's response to more competition.

Careful consideration will be required to ensure that any regulatory reforms will enable the Australian retail industry to adapt effectively to highly competitive global market conditions and better service consumer needs. Accordingly, we consider that the three core consumer issues identified above should be further explored and considered before finalising any recommendations or policy reforms.

eBay is hopeful that this inquiry will reach sound conclusions that enable Australian retailing to increase its competitiveness and modernise, including through a flourishing online retail sector with multi-channelling benefitting consumers and businesses.

eBay will continue to share with the Commission its experiences and expertise from its local and global operations and to be an active participant in this important policy debate and would be pleased to discuss our views in more detail with the Commission as it works to complete this important inquiry.

Yours sincerely

Deborah Sharkey
Managing Director
eBay Australia and New Zealand