

OFFICE OF THE SECRETARY



Australian Government
Department of Resources,
Energy and Tourism

51 Allara Street, Canberra City ACT 2601
GPO Box 1564, Canberra ACT 2601
Phone (02) 6276 1000
www.ret.gov.au

ABN 46 252 861 927

9 September 2011

Mr Philip Weickhardt
Ms Louise Sylvan
Commissioners
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601

Dear Mr Weickhardt and Ms Sylvan

Please find attached the Department of Resources, Energy and Tourism's submission to the Productivity Commission's Draft Report – Economic Structure and Performance of the Australian Retail Industry.

The Department welcomes the opportunity to provide comment on this draft report. The Department's interest in this Inquiry relates to the interactions of the retail industry and the tourism industry and, particularly, the extent to which Australia's retail offering is attractive to tourists.

The Department is concerned to ensure the regulatory environment for retail activity in Australia supports investment which allows for innovation and responsiveness to consumer expectations and lifestyle. In this regard, the Department supports the Productivity Commission's recommendations regarding planning and zoning, and retail trading hours.

Consistent with the National Long-Term Tourism Strategy, the Department supports initiatives that will increase the productivity of the retail industry, and through it, the tourism and services sectors of the economy. Consequently, the Department is supportive of consideration of options to address obstacles to the efficient negotiation of enterprise-based arrangement that have the potential to improve productivity, provided it is done in a manner consistent with the maintenance of minimum safety net provisions for employees.

If you or any of your officers have any questions or queries on the submission, please do not hesitate to contact Mr Nicholas Dowie on 02 6243 7166.

Yours sincerely

Drew Clarke

Submission on the Productivity Commission's Draft Report – Economic Structure and Performance of the Australian Retail Industry

The Department of Resources, Energy and Tourism (DRET) is pleased to have the opportunity to provide comment to the Productivity Commission (the Commission) on its Draft Report: *Economic Structure and Performance of the Australian Retail Industry*. DRET's interest in this Draft Report relates to the interactions of the retail industry and the tourism industry and, particularly, the extent to which Australia's retail offering is attractive to tourists.

Tourism is a significant industry for Australia, contributing around \$34 billion per year to the Australian economy, employing nearly half a million people and providing our largest export of services. Tourism is also important to regional Australia, with 46 cents in every dollar of tourism expenditure being spent in regional Australia.

However, the tourism industry has been underperforming. The industry's global market share has been steadily decreasing and the domestic tourism market has gone backwards over the past decade. The industry is trade exposed, has a high cost base relative to its competitors and is labour intensive. The impact of the resources boom and falling real prices of aviation has introduced greater competition from low cost destinations and exposed poor levels of firm productivity that is eroding the industry's competitiveness.

This is putting pressure on tourism exports, which account for 9 per cent of total exports and results in Australia's tourism balance of trade changing from a \$4 billion surplus in 2001-02 to a \$5 billion deficit in 2009-10.

In this context it is important to ensure the regulatory environment is supportive of investment and offers business the opportunity to innovate in a manner that will provide a compelling choice for both domestic and international tourists.

Role of retail

DRET notes the Commission's statement at pages 7 to 9 of the Draft Report in regard to the role of retail. DRET suggests the role of retail also includes contributing to the vibrancy of a locality, providing a point of community gathering, and an opportunity to both express and experience local culture. These aspects of retail's role are fundamental in providing centres which are attractive to tourists.

The importance of retail to the tourist experience is demonstrated by the extent to which 'shopping for pleasure' is nominated as a popular leisure activity for international tourists. Data from Tourism Research Australia's International Visitor Survey in 2010 indicates 'shopping for pleasure' is a key activity for all Australia's top ten inbound markets:

| Country | Percentage of visitors nominating 'shopping for pleasure' as a popular leisure activity |
|----------------|---|
| New Zealand | 70.8 |
| United Kingdom | 75.2 |
| USA | 65.7 |
| China | 81.0 |
| Japan | 79.2 |
| Singapore | 74.8 |
| Malaysia | 85.7 |
| South Korea | 91.3 |
| Hong Kong | 76.6 |
| Germany | 75.5 |

The retail sector is an important part of the tourism industry, accounting for over ten per cent of total industry GDP and providing the outlet in which the most popular tourist activity (shopping) can take place. The retail industry forms a critical part of the nation's tourism infrastructure, being a destination in its own right as well as providing the foundation for broader entertainment and leisure precincts that support other aspects of the industry supply chain.

The role of the National Long-Term Tourism Strategy in increasing productivity in the retail sector

The Commission's draft reports notes that the retail sector is highly labour intensive, provides high minimum wages by international standards, is losing market share to international competitors, has been slow to harness the opportunities presented by digital technologies and has a level of labour productivity significantly less than many of its high wage competitors. Many of these characteristics are shared by the broader Australian tourism industry and many of the initiatives being pursued to increase the productivity of the tourism industry through the National Long-Term Tourism Strategy (Strategy) are relevant to the Commission's consideration of factors impacting on the productivity of the retail sector.

The Strategy is an inter-jurisdictional, micro-economic reform agenda to increase productivity in the tourism sector. It aims to achieve this through fixing labour and skills shortages, increasing investment, removing unnecessary and burdensome regulation, increasing product quality, building business capability and encouraging firms to use digital technology more effectively.

The Strategy seeks to provide firms with the tools to compete more effectively in the global marketplace whilst reforming aspects of the broader operating environment that act as impediments to growth.

Measures of particular relevance to the Commission's study include the:

- development of the National Online Strategy for Tourism and the tourism e-kit to provide firms in the tourism industry, including the retail sector, with practical tools to take their product online;
- extension of the Enterprise Connect program to the Queensland tourism industry provides firms with access to free business advisory services needed to develop the business skills necessary to compete in a highly trade exposed sector of the Australian economy;
- provision of improved analytical services to industry through the State of the Industry Report and National Research Agenda, allowing firms in the tourism industry, including the retail sector, to make better informed commercial decisions;
- development of the National Tourism Planning Guide to better reflect tourism uses in the planning system and to simplify and streamline the planning development and approval processes for tourism (including retail) firms; and
- development of the TQUAL Accreditation System to provide Australian tourism (and retail) firms with unprecedented marketing and promotional support to meet quality standards.

DRET supports a number of the Commission's recommendations that further the Strategy's supply-side reform objectives and to remove some of the regulatory barriers preventing the development of a more globally competitive Australian tourism industry.

Planning and zoning regulations

DRET supports the Commission's recommendations in regard to planning and zoning regulations. Many of the land-use issues which confront the retail industry, such as the complexity of the system and inconsistencies across jurisdictions, are the same for the tourism industry and that planning reform is crucial to supporting productivity growth in the Australian economy.

The capacity for 'walk-in retail' to innovate and to reduce cost structures as international competition increases should not be constrained by planning regulation which is inconsistent across jurisdictions and, in some instances, highly prescriptive.

Retail trading hours

Similarly, the capacity for 'walk-in' retail to flexibly respond to changing patterns of consumer behaviour, lifestyle and shopping routines should not be constrained by regulation of trading hours. Consumers do not face trading hour constraints in the online environment.

DRET supports the Commission's draft recommendation 9.1 that retail trading hours should be unrestricted.

The negative impacts on the tourism industry of restricted trading hours and the management of trading hour regulation. The example provided by Myer in regard to the cruise shipping industry and trading on a Sunday, as quoted in the Draft Report at page 267, is instructive. While it is apparent the process ultimately allowed Myer to trade it did not provide for adequate advice to tourists of what retail offering would be available to them. This is unsustainable if Australia is to remain competitive in the global tourism market.

Demand for cruise shipping has increased markedly over the last decade as both domestic and international tourists have shown an increasing desire to explore Australia's unique cultural and environmental attractions by sea. If Australia is to properly capitalise on this opportunity then it is important to ensure the capacity to offer a world class tourism experience is not constrained by outdated trading restrictions.

The current trading restrictions restrict the supply of tourism product and prevent Australia from offering a retail experience comparable with contemporary global standards. In the fiercely competitive global tourism market, consumers have the option of travelling to destinations with more liberal trading hours such as Hong Kong, Macau and Singapore. The current trading restrictions means that Australia is unable to provide a retail tourism product comparable to that on offer in Australia's regional competitors.

Employment, skills & training and workplace relations

The draft report highlights the need to support training in the retail sector to ensure higher customer service standards and improvements in the longer term commitment of workers to the retail industry. The conclusion at 11.4 highlights that this can be achieved by employers providing higher rates of training, on the job incentives and the pursuit of higher rates of employee retention to support investment in training. DRET supports further investigating these conclusions and the development of specific recommendations by the Commission that could support training and lead to productivity improvements in the retail industry.

The draft report also highlights industry concerns that the current workplace relations regime prevents firms from offering the flexibility needed to increase productivity. While DRET is not in a position to verify the accuracy or otherwise of these claims, there would be merit in considering options to address any significant obstacles to the negotiation of enterprise-based agreements that have the potential to improve productivity, consistent with the maintenance of minimum safety net provisions for all employees, as part of the review of the Fair Work Act in 2012.