

AUSTRALIAN GOVERNMENT – PRODUCTIVITY COMMISSION

Relative Costs of Doing Business in Australia:
Retail trade Industry



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Bicycle Industries Australia Ltd (BIA) represents bicycle manufacturers, importers, retailers 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 400 importers, manufacturers and wholesalers, along with approximately 1050 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 discussion paper, the BIA would like to raise issues more specific to the operations of the industry.

The industry directly employs over 6000 full time staff and a similar number in part time and casual positions through specialised bicycle distributors and retailers, and many more through large chain stores and associated businesses including transport and logistics, with a total sales value of over \$1 billion¹.

With minimal manufacturing in Australia, all major brands of bicycles are manufactured overseas and imported into Australia. In 2007, that number reached a record high of over 1.43 million units, before falling to 1.1 million in 2008 and recovering to 1.3 million units in 2013². Parts and accessory sales are of a similar income value to a retail shop to that achieved through bicycle sales.

The majority of products which are distributed and sold by the Australian bike retail sector are small, light in nature, and over 80% retails for less than Au\$1000, which allows the products to be easily and cost effectively transported through air freight. These factors have combined with a strong Australian dollar to make the distribution of bicycle parts and accessories extremely attractive from offshore retail sites.

¹ <http://www.bikeoz.com.au>

² Australian Customs and Border protection – annual bicycle import data

THE COMMISSION IS SEEKING QUALITATIVE AND QUANTITATIVE INFORMATION ON RETAIL BUSINESS.

Within the bicycle sector, the average operating margins are;

	BICYCLES	PARTS AND ACCESSORIES
RETAIL	35% Gross Profit	40% Gross Profit
WHOLESALE	22% Gross Profit	80% Gross Profit

Key factors that influence the competitiveness of Australian retail against international businesses include;

- Australian tax and importation processing
- Australian Standards
- Consumer protection laws
- Wage rates

AUSTRALIAN IMPORTATION TAXES AND PROCESS

The Australian retail sector, as with the majority of retail sectors is extremely hamstrung by the impact of Australian regulatory taxes and processes.

These taxes not only impact on the cost of product, but also the time requirements in gaining access to the products through Australian processing systems.

To Import product for sale into Australia, Australian importers must pay several government imposed costs.

ITEM	LOCAL BUSINESS	OFFSHORE RETAILER
ASIC Annual Business Return	Yes	No
Quarterly BAS Statements	Yes	No
State Employment Tax (5.3% - 6%)	Yes	No
Monthly GST return and payments	Yes	No
Super Guarantee Levy (9%)	Yes	No
Import Duties (0-10%)	Yes	Not if <Au\$1000
GST on Goods and services (10%)	Yes	Not if < Au\$1000
Consumer Protection law	Yes	No
Australian Standards	Yes	No
Import Processing Fee	Yes	Not if <Au\$1000
AQIS	Yes	Not if <Au\$1000

As stated the impact of these fees not only relates to the cost of doing business but also the time frame requirements to move the incoming goods through the levels of bureaucracy that many offshore suppliers are not forced to navigate.

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.

These costs include³;

ITEM	COST	EXPLANATION
Application Fee	\$10,000 + 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	\$9,500 + GST*	Annual fee paid to the testing agency
Type Fee	\$1,150 + GST^	Testing of the form of the helmet
Engineering Fee	\$375 + GST^	Engineer report on each type of helmet
Total cost incurred in standards testing prior to importing a single helmet	\$21,025 + GST	
Batch Test	\$200 + GST	In every batch of 400 helmets, 4 must be tested to destruction

Costs are incurred per factory used

*Costs are incurred per organisation

^Costs are incurred per model of helmet

³ All costs are based upon SAI Global standard fee structures.

Prior to the importation of a single helmet, an importer of helmets into Australia must pay a fee of \$21,025 + GST to meet current Australia Standards requirements, with each model incurring further costs.

Additional costs are incurred to receive approval for Australian Standards per shipment made. Helmets are imported in batches of up to 400 units. For each batch imported, 4 helmets must be tested to destruction.

The cost for this testing is \$200 + GST per batch, plus the cost of purchase of the destroyed helmets.

A further variable cost incurred is the design costs to modify helmets to meet Australian Standards. As Australia has the strictest helmet standards in the world, further engineering costs are incurred in most instances to modify the helmet to meet these 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.

The costs associated with meeting Australian Standards ensures that retailers are not willing to import directly due to the size of the Australian market – requiring importation through a wholesaler. This extra layer of supply adds extra expense to Australian retailers compared to overseas retailers. It also adds enormous Australian economic activity and benefit.

CONSUMER PROTECTION LAWS

The reduced authority of the ACCC over offshore online sales also relates to Australian consumer protection laws.⁴

Australia introduced national consumer protection laws on the 1st of January 2011⁵. These laws extend to all purchases of goods or services made from an Australian based retailer or business. These laws do not cover purchases made from international based retailers.

These laws provide protection for consumers, by placing a level of burden on an Australian business. Along with the burden, this also adds a level of cost to that Australian business.

This protection does not exist if purchasing from an international retailer, leaving the consumer more vulnerable to less scrupulous vendors.

According to the ACCC website, if you are in dispute with an offshore retailer, you must contact the consumer body in that country, and 'There is no guarantee that an international agency will follow up individual complaints—this will depend on its policies.'⁶

Many consumers are unaware of the protection provided by the consumer protection laws when purchasing goods and services in Australia.

⁴ <http://www.accc.gov.au/content/index.phtml/itemId/268478>

⁵ <http://www.consumerlaw.gov.au/content/Content.aspx?doc=home.htm>

⁶ <http://www.accc.gov.au/content/index.phtml/itemId/268478>

WAGE RATES

Impacting greatly on the *financial viability of Australian businesses* and the liveability of Australia as a country is the minimum wages paid to workers. This minimum wage affects many within the retail and wholesale sectors.

A comparison of Australia, the United States of America and the United Kingdom, quickly demonstrates the impact of current minimum wage rates on a business's profitability. The impact of a minimum wage rate which is over double that of the USA and approximately 50% greater than the UK, often dictates that an Australian business either reduces sales staff or increase prices to cover the associated costs.

	Australia	USA	United Kingdom
Minimum Wage	Au \$16.37per/hour ⁷	Au \$7.82per/hour ⁸	Au\$11.49per/hour ⁹

- Converted to Australian dollars using current exchange rates from the Reserve Bank of Australia on 02/05/2014.
- Based on a 38 hour work week.

⁷ Fair Work Australia

⁸ United States Department of Labour

⁹ HM Revenue and Customs

Policy recommendations

Key elements, which would provide significant benefits to reduce the imbalance towards offshore retailers are;

- 1. Removal of the low value importation threshold for imported good. All items imported into Australia attract GST and appropriate duties.*
- 2. Enforcement of all Australian Standards on products sold and distributed to Australian consumers – regardless of their place of origin. (eg bicycle helmets)*
- 3. Clear branding of domestic e-tailers as 'Australian' if they sell and have Australian based distribution.*
- 4. Increased financial and education support for small and medium Australian retailers to develop increased efficient e-trading.*
- 5. Greater consumer education about the protection provided by Australian Consumer protection Laws.*

Conclusion

Australia has developed a way of life, demonstrating key leadership in infrastructure, welfare, health and education that is the envy of most nations. Our wage rates are higher, support benefits greater and we pay more tax than most nations so that we can continue to be called the lucky country.

Australian wholesalers and retailers cannot compete with countries, especially in the sectors which would be considered to be funded from discretionary income, with overseas companies who have costs a fraction of what we have. Australian retailers cannot compete with unregulated, not to standard, low cost base (wages/warehouse rentals/taxes), no warranty on-line competitors.

The demise of Australian retailers will flow on to the demise of Australian importers/wholesalers/distributors and all the industries that service them. Australian retailers, in the main, rely on importers/wholesale/distributors for the supply of their stock. The vast majority of retailers do not supply to large enough markets to order the required quantity's of stock direct from overseas factories. This extra layer of supply adds extra expense to Australian retailers compared to overseas retailers. It also adds enormous Australian economic activity and benefit.

Generally it would be agreed that our manufacturing industry has almost disappeared, and we risk the speciality retail sector to suffer a similar demise.

The Government needs to understand the question, are they satisfied to suffer the demise of this segment of the retail industry, the relating job losses and reduced government revenue as a direct result?