

Submission to the Productivity Commission’s Inquiry

Relative Costs of Doing Business in Australia:

Retail Trade Industry

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**Context**

The Australian Sporting Goods Association Incorporated (ASGA) welcomes the opportunity to make a submission to the Productivity Commission’s *Relative Costs of Doing Business in Australia: Retail Trade Industry* inquiry.

ASGA was formed in 1981 as the national industry association representing a broad spectrum of sporting goods and active lifestyle industry participants, including manufacturers, importers, agents, wholesalers and retailers.

ASGA is a leading industry voice on issues impacting the health, trade, regulation and taxation of the sporting and active lifestyle goods industries. ASGA aims to foster market growth, provide services and advocate for increased participation in sport and physical activity.

Members of ASGA include the world’s leading sports brands and major Australian retailers. We represent over 1000 sporting and active lifestyle goods retail stores around Australia.

Sports retailers range from the very large (1,000+m2) like Rebel Sport and Sportsmart, through to franchisees like The Athletes Foot, family-owned businesses in the High Streets of regional towns and tiny golf club pro-shops. Ownership and business models include franchises, listed corporations, family-owned companies and vertically-integrated international brands.

Australian sporting goods retailers are facing significant challenges, from a higher household saving rate (see the graph below) to the low value threshold on goods purchased overseas.



 Source: RBA

Within the scope of this inquiry, ASGA contends Australian sporting goods retailers are facing considerable costs of doing business, including:

* Government taxes and regulation
* Counterfeiting
* Employment
* Retail tenancy
* Transport.

This is true both within Australia and in comparison to overseas companies. Indeed, as mentioned by one sporting goods retailer:

“I have been a retailer of snow sports products for the past 39 years in Sydney city and for the past eight years in a ski resort in Japan. The fact is, retail is way too tough in Australia these days.”

ASGA acknowledges these public policy issues are complex and difficult. However, while some areas are either not a Federal Government responsibility, and others are unlikely to change in any meaningful way, there are several policy issues the Federal Government could act on that will reduce cost burdens faced by Australian retailers.

This submission will look at several of those issues in detail, although it will not respond to every issue raised in the Issues Paper.

**The 2011 PC Report – what’s changed?**

Neither government has seriously addressed the recommendations in the 2011 PC Report. In particular, while the ABS is now reporting on online shopping, the low value threshold has not been scrapped or reduced, despite several further reports into the issue and a significant increase in online consumption by Australians in the past three years.

Planning and zoning issues in some states have improved, as have retail trading hours, but more work could still be done in these areas. Several state governments, including Queensland, Victoria and NSW, are looking at retail tenancy issues at the moment, but we are as yet unsure about what changes, if any, will be made in retail tenancy.

The recommendations about the Fair Work Act were implemented – there was a review of the operations of the Act and the review of the Modern Awards has begun. It is clear however the current government will not make any changes to the Act in its first term.

While it is encouraging to see some of the recommendations of the 2011 PC Report implemented, the fact remains the biggest issue the report was looking at – the low value threshold – has not changed, with both major political parties unwilling to do the right thing if it meant provoking a consumer backlash before the last election.

**Current state of the retail sector**

The state of the retail sector has certainly improved since the 2011 PC Report, but only slowly and cautiously. One small and independent sporting goods retailer noted that:

“After a massive downturn in sales following the GFC, we are seeing a slight but cautious improvement in the last year or so.”

ASGA’s own research shows retail trade in sporting footwear, apparel and equipment rose from $1.05b in Q3 2011/12 to $1.19b in Q2 2013/14.[[1]](#footnote-1)

ASGA Sporting Goods Retail Sales

 Source: ASGA

This tracks with the more general figures from the Australian Bureau of Statistics, which shows an increase in general retail trade of $21b in February 2012 increasing to $23b in February 2014.[[2]](#footnote-2)

**RETAIL TURNOVER,** Australia


Source: ABS

However, despite the positive news, retailers remain concerned about tough trading conditions.

Consumer sentiment, while trending upwards, remains well down on pre-GFC levels. Unemployment is getting slowly worse and retailers are concerned interest rates, at historic lows currently, are likely to start moving higher in the near future.

In addition, while many Australian retailers have started their own online stores since the 2011 PC Report, the fact remains that Australians are continuing to shop at overseas online stores in ever increasing numbers, drawn there in part because those overseas competitors continue to have an unfair price advantage over Australian retailers because they are still not required to charge GST on good below $1000.

**Government taxes**

For the purposes of this submission, taxes can be broken into two relevant areas – the low value threshold and everything else.

ASGA reiterates the point made in the Fair Imports Alliance submission to the 2011 Report that “At the most basic level, overseas retailers automatically have a 15-20% advantage over Australian retailers selling the same product, as a result of the Australian Government’s policy to waive indirect tax applications and customs duty at the import stage for packages under the $1,000 low value threshold.”[[3]](#footnote-3)

One sporting goods retailer ASGA spoke to said that:

“We try to be competitive in-store and online, but US and UK competitors are automatically 10 per cent cheaper (because of the LVT). We’re behind the eight-ball right off the bat.”

As noted in elsewhere in this submission, Australian retailers are facing a number of challenges, some of which can be assisted with by the Federal Government and others in which the Federal Government can only have very limited or no impact. Retail tenancy is mainly a state issue. Apart from transport infrastructure spending, there is little the government can do about transport costs. Australia will always be a high-wage economy.

However, the government can do one thing to help retailers that is both relatively easy to implement and the right thing to do - reduce or remove entirely the low value threshold.

Arguments about the high costs of implementing a reduction in the LVT – as enunciated in the PC’s 2011 Report – no longer apply. It has become clear that by convincing the largest overseas online retailers to collect GST at point of purchase, the vast majority of goods coming into the country will be captured. Leaving a relatively small percentage of goods that will need to be assessed for GST at the border, no matter what the level of the threshold.

ASGA strongly recommends the government find a mechanism to encourage or force the 50 largest overseas online retailers to register for GST and reduce the threshold to $250 immediately, with a phased reduction put in place over several years that will further reduce the threshold to $20.

For other taxes and regulations, ASGA notes that Australian retailers face an overabundance of taxes and regulations from three levels of government, ranging from GST collection, staff superannuation and company taxes at the federal level to workers compensation premiums, business licence fees and payroll taxes at the state level down to council rates, signage fees and parking levies at the local government level.

The collection of GST, as an administrative burden on businesses, has been raised again and again in discussions with ASGA members and the wider sporting goods sector. A sporting goods retailer with stores in Australia and Japan noted that:

“Collecting the GST is a real burden for small businesses. In Japan they have a system for small businesses where the GST-equivalent tax is based on a total sales percentage for the year, which is a much easier system for us to administer.”

ASGA encourages any future consideration of the GST to look at ways of making the administration costs of collecting the GST more simple, especially for small business.

ASGA is aware there have been a number of attempts to rationalise these taxes and regulations for businesses, most of which have had limited success. ASGA encourages any moves to lessen the tax and regulatory burden on retailers from all government jurisdictions.

**RECOMMENDATIONS – Taxes and Regulation**

1. That the Federal Government ensures large overseas online retailers are registered for GST and collect the GST at the point of purchase

2. That the LVT be reduced to $250 immediately, with a phased reduction to $20 over the next three years

3. That the Federal Government continues its efforts to harmonise federal, state and local government tax and regulatory burdens on retailers

4. That any future consideration of the GST looks at methods of making its collection and administration by small businesses simpler.

**Counterfeiting**

Counterfeiting is an ever-increasing problem for Australian retailers and particularly for Australian sporting goods retailers.

According to a 2013 Choice article:

“The value of counterfeit products intercepted in Australia reached an all-time high last year, with the Australian Customs and Border Protection Service seizing more than 700,000 counterfeit products with a total estimated value of $48.5m (based on the equivalent value of genuine goods). Globally, counterfeits are estimated to account for about two per cent of world trade, amounting to $272bn, according to the Organisation for Economic Cooperation and Development. Meanwhile, the International Chamber of Commerce has higher estimates, saying the global counterfeit trade accounts for five to seven per cent of world trade and is worth around $600bn.”[[4]](#footnote-4)

Of course, that only accounts for Customs’ seizures – clearly there are significant amounts of counterfeit goods that still make it into the country. And that doesn’t even begin to look at the number of one-off counterfeit items that are purchased online from overseas-based websites by individuals convinced they are getting a good deal, when in fact they are simply being ripped-off by clever counterfeiters.

According to international research by Mark Monitor (part of Thomson Reuters) “one in five bargain hunters in the U.S. and Europe mistakenly shopped on e-commerce sites selling counterfeit goods while looking for deals online. Deal seekers outnumbered consumers seeking fakes at the rate of 20 to 1.”[[5]](#footnote-5)

We can assume these statistics apply fairly equally to Australian consumers.

While the recent *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* legislative changes are welcome, Australian law has not kept up with the influx of counterfeit goods or the new and sophisticated ways counterfeiters are marketing their goods to Australian consumers.

The purchase of counterfeit goods results in a likely loss of a sale of similar legitimate goods, creating an indirect cost for Australian retailers. This cost to retailers (not to mention the potential danger some counterfeit goods pose to consumers), could be ameliorated by the Federal Government by improving anti-counterfeiting activities as described in the recommendations below.

**RECOMMENDATIONS – Counterfeiting**

1. Improve border control measures to identify and halt the importation of counterfeits

2. Remove of the “personal use” exemption for importation of counterfeit goods under the Trade Marks Act 1995

3. Institute a “no counterfeits” declaration on passenger arrival cards used for entry into Australia

4. Increase public awareness of the impact of counterfeit products

5. Clarify the right of citizens and companies to act as “private prosecutors” in criminal cases involving counterfeit products.

**Employment**

Discussions with ASGA members – many of them internationally owned sporting goods brands – have strongly indicated Australia is a high wage economy compared to other jurisdictions in which they operate.

One sporting goods retailer noted that:

“We pay about ¥1,000 (approx. $10) an hour (more than the minimum wage of about ¥800 (approx. $8)) at our store in Japan. That’s less than half the Australian minimum wage.”

While high wages are generally good for an economy as a whole – leading to higher demand for goods and services – high wages do increase costs for businesses, particularly retailers, and especially when compared to other countries.

ASGA would argue other mechanisms to improve labour productivity and improve business efficiency and profitability should be adopted.

As noted in the Australian Workforce and Productivity Agency’s recent Retail Workforce Study:

“Over the next five years retail employment is projected to grow by 8.9 per cent (i.e. 109,100 new jobs), an average of 1.7 per cent per annum. The projected 1.7 per cent rate of growth compares with growth of 1.0 per cent per annum over the past decade and 0.2 per cent per annum in the last five years.”[[6]](#footnote-6)

The study discusses ways for the Australian workforce to meet the needs of this retail employment growth. It expects that while retail will remain a relatively low-skilled industry, the need for improved skills, especially in technology, is growing considerably.

“To build the skills required for the future there needs to be a shift in the mindset of both (retail) workers and employers combined with appropriate funding models for training and better access to business and workforce development advice. There also needs to be a better understanding of the nature of emerging and converging jobs, and the education and training pathways to them.”

In short, governments need to assist retail employers and employees to (1) recognise the value of qualifications and training, (2) recognise how specific skills and qualifications are changing over time and (3) access such training.

Even if the government does decide to tinker with wages and employment benefits (unlikely before the next election), ASGA doesn’t believe it will have a significant impact on the difficulties retailers are facing. Of far more benefit would be addressing the concerns sporting goods retailers have around transport costs, the low value threshold and, longer term, skills and training of retail employees.

**RECOMMENDATIONS – Employment**

1. That the Federal Government works with the retail sector to improve its image as an employer of choice

2. That the Federal Government assists employers to recognise the importance of training and qualifications for the sector

3. That the Federal Government provides significant funding for training and qualifications for the sector.

**Retail tenancy**

High rents and an opaque leasing process are part and parcel of the major challenges faced by retailers.

Broadly, ASGA is concerned with retail tenancy issues including: the power imbalance between landlords and retailers currently in favour of landlords; transparency of information available to both parties; security of tenure; the use of retail turnover to determine occupancy costs; rent and fit-out costs.

As one Sydney sporting goods retailer said:

“We were just forced to move in December 2013 (from one part of Sydney CBD to another) because the rent was too high. That was the second move in five years for the same reason. Both times we were forced to move to smaller premises. Prior to that we were 23 years at the same place.”

These rents are of particular concern within shopping centres. As noted by research conducted by the Shopping Centre Council of Australia (SCCA), shopping centres account for $84 billion in retail sales each year, across 1,338 individual centres. These centres are very productive in comparison to strip shopping areas, with nearly 41 per cent of all retail sales in less than a third of available retail space across the country. The large centres attract in excess of 15 million shopper-visits per year.[[7]](#footnote-7)

Indeed, as pointed out in the Australian Retailers Association (ARA) submission to the Productivity Commission’s *Economic Structure and Performance of the Australian Retail Industry* inquiry in May 2011 “the smaller an individual business is, the greater the disparity in the power dynamic between the retailer and the landlord. This factor is further compounded by the very real notion that large-scale shopping centres are oligopolistic in nature. The fact that companies such as Stockland, Centro, Westfield and AMP are really the only providers in the market, retailers (even one with branches across different jurisdictions) are reliant upon securing sites within these premises. In addition, smaller retailers are further exposed to the inherit imbalance in the rental arrangements particularly when negotiating and continuing retail leases.”[[8]](#footnote-8)

In addition to those areas mentioned above, ASGA is also concerned with achieving consistent legislation across the country. As noted in the 2008 PC Report *Market for Retail Tenancy Leases in Australia* “Until 2001-02, jurisdictions met regularly with the aim of harmonising legislation, but these meetings were discontinued. Although the broad architecture of retail tenancy legislation or codes is similar across Australia, there are significant differences in detailed provisions and application between jurisdictions, and indications are that policies and regulations across jurisdictions will diverge further.”[[9]](#footnote-9)

However, ASGA is aware retail tenancy is a state government issue and there is little, apart from a coordination role through COAG, the federal government can accomplish in this area.

**RECOMMENDATIONS – Retail tenancy**

1. That the Federal Government works with State governments to encourage them to reform existing retail tenancy laws to provide a level playing field for tenants.

**Transport**

The cost of moving goods internally within Australia (for example, from the receiving port to the wholesale warehouse and from there to the retail outlet), is a significant cost for businesses, especially compared to many overseas jurisdictions.

One snow sport goods retailer, with operations in both Australia and Japan, said:

“Domestic transport is very expensive in Australia compared to Japan. It costs us significantly more to get a container of goods from the port in Botany to our store in Sydney than it does to get the same sized container from the port in Japan to our store in the mountains two and half hours away.”

As a large country with a small population, Australia faces relatively high transport costs compared to countries with higher population densities. These costs are only likely to increase, with Infrastructure Australia noting that:

“Between 2010 and 2030:

* truck traffic is predicted to increase by 50%
* rail freight is expected to jump 90%
* the number of containers crossing the nation's wharves will increase by 150%.

In addition, the volume of freight flown into and out of Australia has more than doubled over the last twenty years and is expected to increase by almost 110 per cent from 5.5 to 11.4 billion tonne kilometres by 2030.”[[10]](#footnote-10)

These issues will only exacerbate the already high transport costs faced by retailers (and other sections of the economy). It is vital therefore that, in order to keep up with the projected demand, government investment in road and rail infrastructure and networks be prioritised over the coming years.

In addition to the transport networks themselves, logistics management requires access to large warehousing space close to those transport networks. Part and parcel of transport infrastructure spending must be ensure the availability of land and planning approval for warehousing space in the right geographic areas.

Finally, the nature of logistics, like everything else, has changed with technology. While ASGA remains unconvinced that Amazon-like drones for delivery of consumer goods are the way of the future, it is vital that workers in retail, transport and logistics have the opportunity to train on and use the latest technologies to make the system as efficient as possible.

ASGA notes the publication of the National Land Freight Strategy last year and encourages the federal government to prioritise transport infrastructure that serves the needs of Australian retailers.

**RECOMMENDATIONS – Transport**

1. That the Federal Government prioritises transport infrastructure investment that assists retailers

2. That the Federal Government works with State governments to encourage them to prioritise warehousing space that is appropriate

3. That the Federal Government ensures transport and logistics is a priority area for funding for innovation, technology and training

**Conclusion**

The Australian sporting goods and active lifestyle sector, as an important part of the general retail sector, is facing high costs of doing business compared with international equivalents and competitors.

Australia is generally considered an expensive country in which to conduct a retail business, but is nevertheless considered a good place to do business, due to our high standard of living and stability.

ASGA recognises the federal government has a limited role to play in many of the issues discussed above. However, there are clearly a few areas where the federal government can make a significant difference:

1. Ensure large overseas online retailers are registered for GST and lower the threshold, over time, to $20.
2. Reduce tax and regulatory burdens on retailers by harmonising state, federal and local requirements
3. Improve anti-counterfeiting operations
4. Invest in more skills and training for retail employees
5. Encourage state governments to introduce retail tenancy laws that are fairer to tenants
6. Improve transport infrastructure.

ASGA thanks the Productivity Commission for this opportunity to make a submission to the inquiry. I would be pleased to discuss it in further detail at your convenience.

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1. ASGA Market Intelligence Sporting Goods Retail Survey – Oct-Dec 2013 Quarterly Results [↑](#footnote-ref-1)
2. [http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/8501.0Main%20Features2Feb%202014?opendocument&tabname=Summary&prodno=8501.0&issue=Feb%202014&num=&view](http://www.abs.gov.au/AUSSTATS/abs%40.nsf/Latestproducts/8501.0Main%20Features2Feb%202014?opendocument&tabname=Summary&prodno=8501.0&issue=Feb%202014&num=&view)= [↑](#footnote-ref-2)
3. <http://www.pc.gov.au/__data/assets/pdf_file/0011/109595/sub047.pdf> [↑](#footnote-ref-3)
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5. <https://www.markmonitor.com/pressreleases/2012/pr121119.php> [↑](#footnote-ref-5)
6. *Retail Workforce Study: Adapting to new and emerging trends*. (Australian Workforce and Productivity Agency) March 2014. [↑](#footnote-ref-6)
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8. <http://www.retail.org.au/Portals/0/Policy/PCRetailInquiryARA%20submission%20-%20FINAL.pdf> [↑](#footnote-ref-8)
9. <http://www.pc.gov.au/__data/assets/pdf_file/0011/82748/02-overview.pdf> (Overview, p. XVIII) [↑](#footnote-ref-9)
10. <http://www.infrastructureaustralia.gov.au/freight/> [↑](#footnote-ref-10)