



SUBMISSION

**Australian Productivity Commission
Draft report on the
Economic Structure and Performance of
the Australian Retail Industry**

2 September 2011

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1. About New Zealand Retailers Association:

The New Zealand Retailers Association (NZRA) is the most significant body in the country representing the interests of retailers. We represent an industry that has annual sales of \$66 billion and which employs 325,000 people (approx 20% of the New Zealand workforce) in more than 49,000 outlets throughout New Zealand.

Across all store types and areas we have some 5,700 members and they in turn operate some 14,000 shop fronts. These stores range from the majority of large national retailers to thousands of owner operators.

Our membership accounts for 65% – 70% of total retail expenditure (excluding the motor vehicle sector).

Within the New Zealand Retailers Association structure we also have a number of specialty groups and in the main these include retailers, importers, and suppliers of a specific product type. The specialty groups we operate are:

- Bicycle Industry
- Sporting Goods
- Jewellery
- Plumbing Distributors
- Pets/Pet Products/Equestrian Suppliers

2. Contact:

Barry Hellberg
Government Relations Manager
New Zealand Retailers Association
Level 2, CMC Building
89 Courtenay Place, P O Box 12 086
Wellington

Ph: 04 805 0830
Fax: 04 805 0831
Email: bhellberg@retail.org.nz

3. Introduction:

The NZRA wishes to present a summary submission in respect of the draft report released by the Productivity Commission in respect of its inquiry into the structure and performance of the Australian retail industry.

However, our comments will be intentionally selective and be confined to those recommendations that relate to online retailing and indirect taxation arrangements as we feel that many of the other recommendations involving planning and zoning regulation, retail tenancy leases, retail trading hours regulations and workplace regulations are domestic issues that relate to retail operations within Australia only.

As stated in our original submission many of the retailers that operate in New Zealand today are owned by Australian interests, and, conversely, there are also a perhaps more limited range of New Zealand retailers that operate in Australia solely or in Australia as part of their global operations.

Consequently we believe that it is important, for instance, that a joint approach is maintained to those existing rules of origin arrangements that govern duty free entry for merchandise that is manufactured in either country and which is entered into Australia from New Zealand or into New Zealand from Australia.

Whilst the Australian Federal/State political structure is more complex than New Zealand we also feel as a matter of principle that a joint approach to many policy and commercial issues that impinge on retail is more desirable than a unilateral one and we express this opinion in more detail in aspects of this brief submission.

4. Trends and Issues related to on-line Retailing:

Recommendation

The ABS should monitor and report on online expenditure by Australian consumers both domestically and overseas either by upgrading existing surveys or conducting new surveys. The ABS should design surveys so they can disaggregate online spending with 'multi-channel' establishments and 'pure play' online retailers. The ABS should also redesign its surveys to show levels of employment associated with online retail sales as reflected by the size of the workforce of pure play retailers and the online divisions of multi-channel retailers (Draft Recommendation 4.1)

NZRA Comment

We are supportive of this recommendation and consider such an approach if confirmed and adopted by the Australian Government should be discussed with Statistics New Zealand as the current Retail Trade Survey, which is now issued on a quarterly basis, does not as a general rule distinguish between sales by bricks and mortar retailers on the one hand and online sales on the other when made by a bricks and mortar store. It is desirable for ABS to share developments with Statistics New Zealand.

5. Appropriateness of Indirect taxation Arrangements

Recommendations

There are strong in-principle grounds for the low value threshold (LVT) exemption for GST and duty on imported goods to be lowered significantly, to promote tax neutrality with domestic sales. However, the Government should not proceed to lower the LVT until it is cost-effective to do so — that is, at a minimum, the tax revenue should exceed the full costs of collecting it. (Recommendation 6.1)

The Government should establish a task force charged with investigating new approaches to the processing of low value imported parcels, particularly those in the international mail stream, with a view to preparing for significant improvements and efficiencies in handling. The task force should be comprised of independent members, with the Australian Customs and Border Protection Service (Customs), Australia Post and the Conference of Asia Pacific Express Carriers providing advice. The terms of reference should outline the criteria that any new system must satisfy including: minimising the costs of processing and delivery delays, user pays, and without compromise to the border protection functions of Customs and AQIS. This review should report to Government in 2012. (Recommendation 6.2)

NZRA Comment

The NZRA is delighted that the Commission has acknowledged in principle that a level playing field is optimally desirable to promote tax neutrality between offshore online sales and sales by Australian based retailers.

Whilst we acknowledge that the de minimis rules in Australia and New Zealand operate from a differing base we nevertheless believe a similar principled approach should be adopted by both countries on this issue and that the current regimes applying to low value parcels of merchandise imported from offshore suppliers into both countries free of duty (where applicable) and GST should be abolished.

Latest estimates undertaken by A C Nielsen estimate that the value of online sales in New Zealand now totals around some 5% of total retail sales and it is our considered opinion that this trend will increase.

The foregone tax revenue in New Zealand for offshore online sales is currently estimated to be of the vicinity of NZ\$100m which could likely increase to NZ\$200m by 2015.

The issue of online sales has also recently received considerable publicity in New Zealand over the sale of Adidas rugby jerseys for the 2011 Rugby World Cup and the NZRA is consequently continuing to explore alternative ways in which the loss of duty and GST could be assessed for purchases below the de minimis threshold in New Zealand

We submit that if the Commission's recommendation is accepted then the Customs and Tax Authorities in both countries should jointly discuss a common approach to this ongoing problem and devise a common solution to mitigate the loss of tax revenue in both countries.

We also submit that the Commission should recommend that the revenue loss implications of offshore online retail sales should also be examined in a trans-Tasman context by appropriate trans-Tasman Ministerial Forums which are attended by the Ministers of Finance, Revenue or Customs.

On a more general note, and as stated in our original submission, a new Consumer Law Reform Bill is currently before the New Zealand Parliament but it is unlikely to be progressed beyond its first reading prior to the 2011 Election in New Zealand which will occur in late November.

We remain concerned that this Bill does not adequately address online sales and expect to make further representations on this issue when submissions are called on the Bill.

6. Conclusion:

We do not wish to appear before the Commission but would be happy to discuss these submissions if the Commission would find that helpful..

New Zealand Retailers Association
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