



Australian  
**Retailers**  
Association

The Hon Scott Morrison MP

Treasurer

[prebudgetsubs@treasury.gov.au](mailto:prebudgetsubs@treasury.gov.au)

## **PRE-BUDGET SUBMISSION 2018/9**

***The Times, they are A-Changin'***

**December 2017**

### **Background**

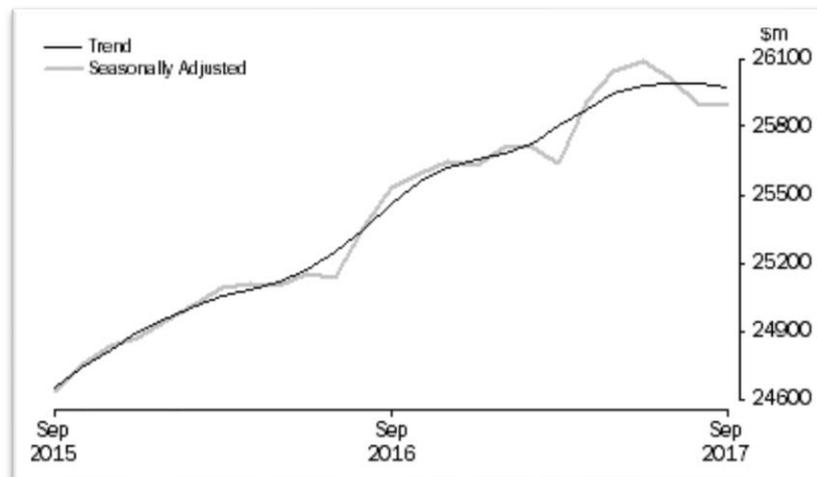
The Australian Retailers Association (ARA) offers support, information and representation to over 7,500 retailers across the nation, representing more than 50,000 shopfronts. The ARA ensures the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

The ARA advocates for the Federal Government to assist retailers and consumers in the 2018 Budget, to reduce the overall taxation burden, stimulate the economy, and assist in positioning the Australian retail industry for a prosperous future, focused on innovation and productivity. Recent structural shifts in the retail and broader economic landscapes caused by globalisation have significantly impacted on the industry. These changes have intensified competitive pressures and increased scrutiny on the impediments to, and costs of, doing business.

This is reflected in the year-to-date trend in retail figures, which shows year-on-year growth between September 2016 and September 2017 of only 1.44 per cent. Of major concern is that much of the growth in retail spending has been driven by volume growth, with prices falling due to intensified competition. Coupled with inflation, retailers are experiencing little-to-no growth in relation to these figures.

Cost burdens borne by retailers and consumers alike are threatening the industry's viability as well as the economy more broadly. The impact of rising utility prices, especially energy and rental costs, have had a significant impact. Add to this weak consumer sentiment off the back

of sluggish wages growth, rising household debt burdens and housing affordability, and retailers are struggling to keep pace.



1

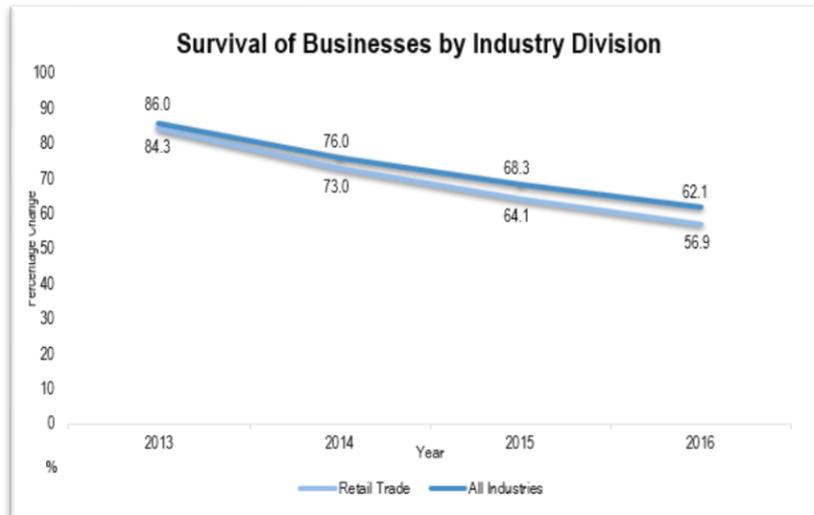
## Key issues

The impact of this environment is beginning to hit home. Australian Bureau of Statistics Data shows retail business survival is trending below the overall average; tellingly, retail has plunged from 84.3 per cent as at June 2012 to a low of 56.9 per cent in June 2016. More recent developments in the industry have seen some of Australia's best-known retailers enter into administration or even shut their doors entirely. One retailer recently elected to close over 300 stores in the near future. The impact of these decisions, including a loss in business investment and widespread job losses, may only be the tip of the iceberg.

The 2015 Intergenerational Report pointed to long-term shifts in Australia's economic growth and productivity, as well as an ageing population. The Australian economy has experienced a transitional period since the end of the Global Financial Crisis and the Mining Boom, meaning that the digital economy has now become the main driver of growth.

---

<sup>1</sup> Australian Bureau of Statistics, '8501.0 - Retail Trade, Australia, Oct 2017'.



2

Net debt servicing has now risen to make up one quarter of the Federal Budget Deficit. Plans to return to surplus so far have included a reliance on wages growth, which has not been forthcoming, and bracket creep, which will place additional pressure on households, household debt, and consumer confidence.

Generational shifts, globalisation and technological advancement are set to create a marked shift in spending priorities for Government. Changes need to be made swiftly and proactively to provide economic leadership from the top-down. Only then will a true lift in productivity, innovation and job creation become a reality.

Australia is slipping down the world rankings in economic performance. Wages growth remains stagnant, cost of living pressures are rising, inflation figures are largely sustained by the over-inflated property market, which will deflate at some stage. This will be a major hit to the overall economy, especially given the increasing levels of household debt used to sustain our lifestyles.

Something needs to be done to reduce personal debt (moreover the need for personal debt to fund our lifestyles) – wages need to go up, downward pressure placed on property prices, and a reduction in the cost of living to stimulate spending and inflation in the economy.

<sup>2</sup> Australian Bureau of Statistics, '6291.0.05 Survival of Australian Businesses by Industry Division, June 2012-June 2016'.



Australia has been lucky to avoid a recession for a quarter of a century - if we do not face up to serious economic reform, we may lack the capacity to absorb a shock to the economy. Economic growth has only limped along in recent times, and after 25 years of sustained economic growth, a recession will be inevitable at some point.

Thus, it is better to implement proactive, forward-thinking changes now, rather than reactionary austerity policies when times are bad. The Budget in 2018/9, and in years to come, should focus on providing economic leadership. Spending priorities need to be focussed at the core, and cuts need to be implemented to periphery areas. There is no point making the icing before the cake has been baked.

An inefficient tax system which is yet to be fully addressed sees many businesses lacking international competitiveness and in some cases offshoring their administrative and support parts of the businesses to remain competitive. Business profitability has been hit hard by rising cost pressures from wages to compliance burden. We have seen an easing in some costs like energy due to Federal Government action and global markets jobs.

The ARA and its members have a strong vision for the retail industry based on free markets and growth, productive and innovative businesses, responsible individual initiatives supported by government where appropriate, but without government interference where possible.

The ARA is committed to promoting retail as a viable and exciting career choice for young people, and to retaining and developing the highest standards of practice within individuals at all levels of the industry. The ARA is also committed to assisting members to deal with new technologies, supply chain and logistics.

The Government has a solid base to build on further growth if it addresses current structural spending, high tax, productivity and over regulation issues. The economy is holding up under difficult circumstances, we are encouraged to see strong jobs growth in the retail sector while recognising disruptive technologies have created greater skill needs.

The Government should support the retail industry as one of those sectors which is forecast to grow jobs and the economy through lower taxes, raise productivity, improve retail sector investment and career growth. The retail sector finds itself in both in an area of opportunity and challenge.

**The Budget commitments the ARA would like to see are:**

- Responsible economic management and expenditure restraint;
  - Maintain Australia's AAA credit rating;
- 

- 
- No new taxes or increases in existing taxes - including excise taxes;
  - A genuine plan to stimulate growth through company and personal income tax cuts;
  - Continued regulation reduction through harmonisation within a competitive Federal framework;
  - Planning reform and harmonisation efforts begun in earnest;
  - Sustained public/private infrastructure investment and planning reform;
  - Industrial relations advocacy to support flexibility and employment growth in the retail sector;
  - Commitment to the services sector through continued and further investment in Vocational Education and Training (VET);
  - Continued development of effective employment pathways to the retail sector;
  - Removal of trade barriers such as intellectual property rights on books which only hit Australian based book retailers;

These and other initiatives need to be delivered by the Government in the Federal Budget, which will provide a net benefit for Australian retail business and the wider community by raising productivity and improving the prospects for investment, jobs and reforms.

**The priorities for retail in this respect are for the Government to:**

- Work with states to give tax and duty relief to consumers and business through taxation reform;
- Implement retail tenancy lease reform recommended by the Productivity Commission through COAG and competition policy to create transparency;
- Complete planning reform through competition policy and COAG;
- Harmonise state based laws and regulations through competition policy;
- Simplify workplace safety harmonisation;
- Continued pursuit of more flexible workplace laws and award changes;
- Support skills and employment pathways through VET in the retail and service sector;
- Reform the Australian GST Tourist Refund Scheme (TRS) to allow private operators and grow tourist retail sector;
- Take up the balance of recommendations from the Financial Systems Inquiry (FSI) around payments reform.

**The rising cost of doing business:**

- Skills shortages in the retail sector;
- 

- 
- Uncompetitive wages;
  - Issues surrounding Enterprise Bargaining Agreements;
  - Taxation structure;
  - Trade restrictions through regulation;
  - Consumer law support.

## **Economics**

The ARA calls for recognition by Government that long-term business planning requires investment certainty, the minimisation of risk, low taxation, a flexible wages system, stability, reliable inexpensive sources of energy supply and capital.

A strong, globally competitive economy which provides businesses large and small with the commercial freedom to take calculated risks, invest and secure productive rewards that benefit business owners and managers, their families, employees and consumers is desirable.

The retail economy has fundamentally transformed since the 1980s and is now deeply integrated in regional and global trade. Our economy is comprised of over 130,000 retail enterprises, 96 per cent of which are SMEs, while some of our leading retail businesses are amongst the largest and most successful corporations in the world.

The ARA's policy department is committed to making sure that the environment for doing business in Australia gives our business sector a competitive and productive edge.

We believe in economic reform and the leadership that Government and the private sector business organisations can provide in facilitating reform and community support for the reform effort. The ARA is particularly concerned with ensuring that Australia's tax and regulatory systems support private entrepreneurship.

The ARA is keen to see the private sector continuously invest in physical infrastructure and human capital that can add to economic growth as well as community and social wellbeing.

The ARA continues to be committed to support our private sector and our Governments to restore the health of the financial and capital markets. The ARA also seeks to ensure the flow of capital to Australian businesses large and small can fuel a new wave of growth and economic prosperity.



### **Policy objectives**

- Making the case for economic reform and the adoption of policies that promote commercial freedom, entrepreneurship and private sector investment;
- A tax system that creates incentives for the private sector to flourish, improve economic growth and increase employment;
- Reduce the size and interference of Government, including local government bureaucracy;
- Encouraging innovation and investment in the private sector, especially for SMEs;
- Removing multijurisdictional compliance through harmonisation, utilising competition policy and COAG forums with each Minister delivering tangible outcomes in the next term of parliament.

### **Participation in the nation's economic affairs by retailers**



3

---

<sup>3</sup> Australian Bureau of Statistics, '8165.0.02 - Counts of Australian Businesses, Jun 2016'.



The ARA would like to see:

- Rewarding personal entrepreneurship to maximise job creation and wealth for families and local communities;
- An increase in the numbers of self-employed people;
- Reduce red tape and compliance burden on all business, with a particular effort to assist the small to medium retail sector.

### **Budget & fiscal responsibility by Governments**

The ARA is committed to the prosperity and success of Australian retailers, the individuals working in the sector, and the economy as a whole. It is for this reason that the ARA is urging the Government to undertake a concerted effort to implement important fiscal reforms, and necessary investments, in this Budget.

Australia has had a remarkable run of 26 years of uninterrupted economic growth. However, globalisation has caused structural shifts in Australia's economy, with a shift away from manufacturing and resources toward a services-oriented economy. Yet, successive Budgets have failed to keep pace, and this has placed economic growth under threat.

Erstwhile, the Budget deficit has caused net debt to balloon, and servicing this debt now represents close to one quarter of the deficit. Australia's capacity to absorb any unexpected economic shocks, or worse, a recession, is waning. A loss of investment, jobs, and a fall in living standards is an undesirable, and unacceptable price to pay for failing to act.

The ARA is advocating for the Government to use this Budget to act on the following principles:

- Return the Federal Budget to surplus over time ensuring the economy continues to grow, to take pressure off borrowings, interest rates and ensure that the government has the means to execute a fiscal response to a future crisis;
  - Efficient delivery of public and community services by Government and an annual two per cent reduction of spending by Government, on Government, for the next five years;
  - Re-focus spending priorities on core focus areas and implement spending cuts to periphery areas;
- 

- 
- Grow revenue by lowering the cost of doing business through lower and more efficient taxes;
  - Growth in government expenditure is unsustainable and must be addressed.

## **Tax reform**

Recent global trends towards tax reform, including lower corporate tax rates, broader tax bases, and abolition of inefficient, complex tax systems have placed Australia on the back foot. The cumbersome nature of Australia's taxation structure also weighs heavily on businesses and individuals, discouraging compliance and harming productivity. Australia's competitiveness should be assisted, not harmed, by the tax system. Australia needs a tax system which supports a balance of economic and social principles.

Tax revenue should be adequate to meet all elected Governments' reasonable expenditure needs, consistent with the exercise of fiscal responsibility. The tax system should be such that all taxpayers feel confident and satisfied in complying with it. Complexity does not encourage compliance, nor does it stimulate confidence, growth or job creation.

The ARA would like to see a commitment this Budget for a root-and-branch review of the tax system to include the GST. This should be undertaken with a view to abolishing inefficient taxes along with reducing the overall tax burden to business and the productive economy. At present, the Federal Budget is over-reliant on income taxation revenue, and the consumption tax, GST, is under-utilised. This is an inefficient mechanism for revenue-raising and places an unfair burden on individuals, reducing consumer confidence and spending.

A review should also focus on the non-alignment of taxation structures and rates within and between Australian States and Territories. This is essential to reduce the burden of taxation compliance and overlap of inefficient and unnecessary taxation at State and Local Government level. The ARA would like to see the Government commit to funding a National Tax Plan, to be drawn from a review of Australia's taxation system, which would coordinate taxation reform through COAG.

A sustainable tax structure will only be achieved through an integrated package of reform across all significant Commonwealth and State tax bases in the form of a balanced package covering consumption, income, assets and offshoring.

The Government should commit to the cessation of unindexed tax increases or introducing additional indexation which in sapping consumer spending power, or in the case of some products such as alcohol and tobacco, is driving them out of the legitimate retail market into the black market.





### ***Policy principles***

- A lighter tax burden on business and individuals to drive stronger economic growth, more jobs and stronger government revenues;
- Tax changes should include reducing base rates to address the effects on overseas investment and trade related issues;
- Commit to an extensive review of all areas of the taxation system, reducing the reliance on personal income taxes and a better utilisation of the GST;
- A change to the tax base to facilitate the abolition of inefficient State and Federal Taxes;
- Abolition of payroll tax through State and Federal tax changes;
- A halt to ever increasing excise taxation grabs which is sapping money from consumer pockets and creating black markets;
- A renewed commitment to a reduction in corporate tax rates to meet a globally competitive market;
- Expansion of the LVT GST collection model to increase compliance rates and close excise loopholes.

### ***Policy objectives***

- **Economic efficiency:** taxation should impact neutrally on the economy and commercial decisions must not be skewed by tax considerations. The tax system should improve the competitiveness of Australia by encouraging productive investment, risk taking, economic growth and attracting capital along with skilled labour
  - **Adequacy:** tax systems should raise sufficient revenue for public expenditure needs, be sustainable in the long run and be consistent with fiscal responsibility
  - **Simplicity:** taxpayers being able to clearly understand and meet their obligations
  - **Transparency:** taxpayers should understand how and when they are paying tax and how much tax they are paying. Hidden taxes should be minimised
  - **Limit costs:** compliance and collection costs should be minimised
- 

- 
- **Limit evasion:** there should be minimum incentive and potential for evasion or avoidance of taxation, if the system needs to compete with global tax rates it should to keep both business and human capital in Australia
  - **Consistency:** tax policy should be internally reliable and consistent with broader Government policies
  - **Flexibility:** the tax system should be able to respond to developments in the economy and society, for example demographic changes, financial innovation, globalisation, supply chain and capital
  - **Public perception:** there should be the widest possible public support for the tax system

While changes in the early 2000s to Australia's taxation regime improved equity, sustainability and efficiency, there remains significant room for further improvement 17 years later with a greatly altered marketplace.

Based on the tax design principles above, the main reasons for further reform of Australia's tax system include:

- Improving the efficiency and international competitiveness of the Australian economy;
  - Continuing Australia's strong growth and productivity results;
  - Ensuring Australia can meet long-term challenges, particularly disruptive technology;
  - Promoting innovation, risk taking and entrepreneurship;
  - Encouraging investment in human capital, for example through education and training;
  - Encouraging skilled migration and the retention of skilled people;
  - Not causing distortions in competitiveness or driving unintended illegal markets through excessive taxation;
  - Reducing tax avoidance and evasion, to improve the perceived and actual fairness of the tax system.
- 



## **Corporate tax cuts**

The ARA, along with the Australian Chamber of Commerce and Industry, advocate the view that each dollar raised in tax revenue is one dollar less that a business or household must spend. At present, given the high corporate tax rate in Australia, investment levels are floundering despite low interest rates. Businesses need incentives and certainty to grow and employ more workers, which in turn, will support wages growth.

High rates of Corporate Tax discourage investment and stifle competition, especially with overseas businesses who enjoy better trading conditions. Recent moves by several of Australia's G20 counterparts to reduce corporate tax rates by 2020 will place Australia further behind the world's advanced economies<sup>4</sup>. As recently as December 2017, the United States moved to lower its corporate tax rate to well below that of Australia's. This is a worrying sign, and risks deterring overseas investment in Australia.

Closer to home, it is impossible for retailers to compete fairly against companies which operate out of lower taxing jurisdictions, as the higher cost and regulatory burden hampers re-investment in innovation and job creation. The ARA calls for renewed vigour in lowering the Corporate Tax rate and reviewing and streamlining the tax system as a whole.

A more competitive corporate tax rate will increase investment in Australia from both foreigners and local investors, which boosts incomes for local workers, domestic businesses and households. Two-thirds of the benefits are expected to flow to households, while only one-third flows to businesses. The ARA supports the Government's efforts so far to lower the corporate tax rate to 25 per cent over a decade. The tax cut must be extended to businesses of all sizes to extract maximum benefit – the largest businesses can grow and hire more people and attract significant additional investment under a competitive corporate tax regime.

## **Low Value Imports Threshold (LVIT) on GST**

The ARA fully supports implementation and collection as of 1 July 2018 and does not support any further delay. Further, the ARA has supported the Government's vendor collection model as a first step in collection and the quickest and simplest means on initial collection. Retailers believe the Government should investigate other models, improve collection methods or indeed introduce new collection methods.

In fact, retailers, and the ARA, have always said we wanted to achieve as close to a 100 per cent collection rate as practicable. We are aware our borders are leaking tax revenue regarding

---

<sup>4</sup> Oxford University Centre for Business Taxation 2016, 'G20 Corporation Tax Ranking'.





excise and this will only be further highlighted with the new tax on all overseas consumable goods.

One consistent issue which concerns retailers is the low rate of collection in the vendor model. We believe other methods need to be looked at to increase the collection rate, and issues around personal importation need to be addressed through the postal system.

This will be the most practicable method of picking up Excise and GST revenue to support the vendor collection model. Our members who deal with excise-related products report considerable avoidance or non-reporting of lower value products which should attract taxes. This measure would have a net benefit to both Commonwealth and State revenues through increased collection of both GST and excise.

A *Copenhagen Economics Report* study<sup>5</sup> shows that compliance levels on Value Added Tax (VAT) collection on imports in the European Union sits at 98 per cent. This is due to the deployment of technology to allow cargo systems to collect tax on despatch to a location as part of the shipping cost from the vendor, whilst the cargo shipper is responsible for collection and remittance of any taxes owing under the proposed model.

As soon as a location is entered, the tax requirements are flagged to be assessed against value. This system in all respects is not reliant on storage or payment at end of use and has a far lower administrative cost.

Moves to utilise technological innovations to stop the leakage of excise and GST at border will be beneficial for both Government and private industry. The ARA strongly encourages the Federal Government to act on closing this loophole as both a revenue measure and a means by which to level the playing field for private industry.

## **Infrastructure**

The ARA calls for enhanced investment in logistics and infrastructure to lift productivity and efficiency, in response to changes in demography in both urban and regional Australia. The real cost of living pressure and business costs are measurable by retail businesses, proving the urgent need to improve supply chain flows.

Infrastructure is crucial to the operation of efficient supply chains, access to goods and services for consumers and businesses alike, and improving the movability of our towns and cities. The costs to the economy from lost productivity and delays in the provision of goods and services are unnecessary and troublesome.

---

<sup>5</sup> Copenhagen Economics 2014, 'E-Commerce Imports into Europe: VAT and customs treatment'.





In addition to renewed infrastructure investment, attention should be paid to reducing conflicting and outdated regulations and red tape regarding logistics through COAG. State-based regulations on size limits to vehicles, curfews and time-of-day restrictions create delays and inefficiencies which cost the economy.

These inconsistencies are not reflective of the shift to a 24/7 economy. Moreover, the geographic remoteness of the Australian continent and the absence of competitive rail infrastructure make these restrictions even more unnecessary. Retail is an industry which relies heavily on logistics for its operations, and will benefit from improved access to infrastructure.

The commitment shown so far to infrastructure by the Federal Government has been impressive and can be seen around the country. The massive infrastructure catch-up programme in NSW, and accelerated infrastructure investment in Victoria are classic cases of where public/private Federal and state government cooperation is now a key driver in State-based economies.

### ***Policy principles***

Infrastructure is vital to Australia, now and in the future. We must continuously improve our national infrastructure if we are to:

- Improve Australia's economic performance and achieve economic growth;
- Create a better-connected, more efficient Australia;
- Maintain and enhance our international competitiveness.

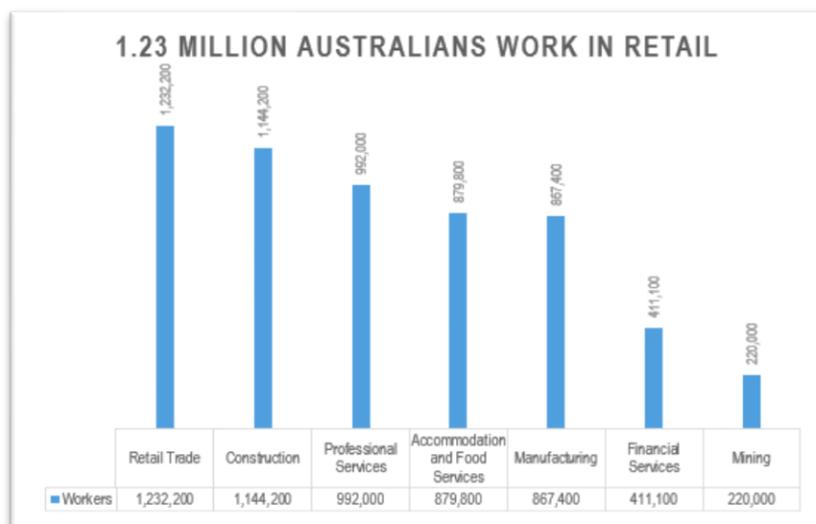
### ***Policy objectives***

- Implement a renewed National Logistics Framework to drive port, rail, airport and road investment creates greater efficiencies for supply chain logistics;
  - Encourage innovation and technological change in all areas related to infrastructure;
  - Ensure that all infrastructure projects are subject to a proper cost-benefit analysis
  - Lead review and reduction of outdated and inconsistent logistics regulation through COAG;
  - Ensure the private sector plays a major role in financing, designing, building, operating and maintaining infrastructure;
- 

- Make certain that equitable and sustainable risk allocation models are developed for each project undertaken by the private sector
- Support transport development which enhances customer and business transport links to key retail hubs.

### Respond to the flexibility, productivity & participation needs of the modern workplace

In Australia, 131,500 retailers employ over 1.23 million Australians – retail is Australia’s largest private employer, representing 10.1 per cent of the total workforce, and six per cent of businesses in Australia. Moreover, with 96 per cent of retail businesses being SMEs, flexible and adaptive workplace standards are essential to a participatory, productive and vibrant sector in Australia.



6

<sup>6</sup> Australian Bureau of Statistics, '6291.0.05 - Employed persons by State, Territory and Industry Division of Main Job, August 2017'.

Modern 21st century workplaces increasingly reflect the joint enterprise and common goals of business and the workforce, employers and employees. The ARA believes in a safety net of standards of behaviour and norms that underpin rights and responsibilities in the workplace, but which also do not detract from individual or enterprise flexibility in workplace agreements.

Above all, the ARA supports enterprises large and small and their employees and contractors to tailor remuneration and working arrangements in a way that provides the best chance for the business and its employees to fully develop and prosper.



7

### **Policy Principles**

- A workplace relations system which is fair to both employers and employees, recognises that they share substantial common interests and seeks to operate with a framework of fair and economically responsible standards and behaviours;
- Make targeted investment in training and skills development a high a priority including effective employment pathways;

<sup>7</sup> Australian Bureau of Statistics, '6291.0.05 - Employed persons by State, Territory and Industry Division of Main Job, Aug 2017'.

- 
- Change the *Fair Work Act 2009* where problems arise, as they become apparent, and as the system evolves.

The Fair Work Commission (FWC) needs to be empowered to effect change within the current Award structure. FWC must consider whether modern awards:

- Achieve the modern awards objective;
- Are operating effectively, without anomalies or technical problems arising from the award modernisation process;
- Allow greater flexibility in workplace arrangements;
- Are considering cost pressures and flexibility needs for Australian retailers operating in a globally competitive environment;
- Have an appeals jurisdiction.

### ***Policy Objectives***

FWC must be obliged to review all modern awards on a regular basis:

- A review will be a vitally important issue for the retail industry to improve both productivity and sustainability for the Australian retail industry. The effective management of labour costs has become more important than ever before for the industry in an environment where sales are stagnating, and the consumer has developed an expectation of globally competitive pricing
  - The recognition of the difficulties faced by retailers working under an award structure that imposes higher labour costs at times when consumers want to shop is causing major distortions in the ability for retailers to trade competitively. This is becoming increasingly problematic as Sunday continues to establish itself as an important trading day with many retailers not finding it economically viable to trade on Sundays;
  - The ARA does not support any amendments to the Fair Work Act 2009 which do not respect the independence of the FWC in adjusting modern award rates. The ARA will also not be supporting any amendments to the Fair Work Act 2009 which prevent award rates from being appropriately revised in response to changing conditions;
  - The ARA will continue to push for appropriate amendments to the *Fair Work Act 2009* and changes to FWC which will allow retailers to more effectively manage their labour costs and provide greater flexibility in engaging with the FWC;
- 

- 
- The ARA will, over the course of this Government, be actively seeking the views of members and engaging with the broader retail industry to identify key common concerns and develop a strategy for ensuring the FWC conducts a comprehensive review of these concerns;
  - As Australia's peak employer association for the retail industry, the ARA will be taking a lead role in the process to achieve a positive outcome for retailers;
  - To achieve outcomes, we need to have an appeals mechanism to ensure due process.

## **Innovation**

For Australia to continue to compete effectively in an increasingly globalised economy, innovation and digital competitiveness require improvement. Globalisation has meant that rural and regional SMEs become increasingly remote and isolated, and technical capabilities are needed to prevent small local footprints from shrinking further.

The ARA believes that utilisation of online web presence for SMEs, coupled with the rollout of national infrastructure including high speed broadband and fifth-generation wireless services, provides a critical platform for business to harness productivity and business improvements. SMEs require extra support for digitisation, skills and leadership development, and the Federal Government is best-placed to provide leadership from the top-down.

We also believe that building on these foundations to establish and facilitate national open data exchange standards which are necessary for an innovative digital economy. From a retail perspective, open data exchange will assist in the establishment of virtual supply chains and information sharing, allowing for increased efficiencies and productivity.

The Government's role includes commercial facilitation in this technology rollout and skills building, encouraging and facilitating through existing skills development opportunities, while allowing market forces to do the rest.

## **Education and training policies**

### **Schools**

The ARA supports a smaller federal bureaucracy for school education, and decentralisation of delivery to the States and schools. However, there is a continuing role for the national development of curriculum and the necessity for the Federal Government to take a more active role in school to work (directly or via further education) transitions. The Federal Government





has more financial stake in successful transitions due to the significant cost of funding welfare benefits should the student not successfully transition into further training or work.

Specifically related to this, the Federal Government should:

- Take greater leadership of vocational training in schools by increasing the dialogue and engagement between schools and industry, and focus on improving the quality and significant inefficiencies created by poor pathways between VET qualifications;
- Commit to promotion of VET pathways and alternatives to university studies to reduce the effect of an overt focus on University education attainment;
- Improve the embedding of employability skills in the school curriculum and pathways to employment;
- Encourage and if necessary incentivise the states to introduce minimum requirements for literacy and numeracy to standards required in the workplace, using international benchmarks;
- Continue current programs for youth connections (addressing disengaged early school leavers) and school partnership brokers under a redefined and more focused initiative School to Work transitions. This focus maintains a direct connection between the prevention of poor outcomes and the cost of failure (welfare).

### **Vocational training**

The ARA supports the efficiency and effectiveness of the vocational training system currently being conducted. However, although there are specific issues within each part of the education and training system (early childhood, schools, vocational training, and higher education), it is important that there is greater clarity of roles between the Commonwealth and the States across the system not just within each component, and pathways and recognition of quality outcomes should be improved between the sectors to achieve efficiency of public funding spend. In other words, any changes made to VET should be done so within a holistic approach to the total system and with a focus on industry not providers.

The current indecision and blame shifting around VET has allowed uptake and rates of attainment to fall dramatically in recent years. Funding in VET specifically should be focused on high quality and national qualifications with industry engagement including work integrated learning models such as apprenticeships.





Currently, an undesirable situation exists whereby jobs in industries such as retail and hospitality are overpopulated by overqualified university graduates, which reduces opportunities for VET and apprenticeship pathways to work.

When qualifications are not articulated to relevant fields of work, the outcomes for individuals who choose not to undertake university studies, whether of their own volition or by circumstance, are poor. This also causes issues for employers regarding staff retention and promotion of skills.

There is no doubt that a more effective national and partnership skills agreement with the States and Territories is needed. This will deliver medium- to long- term outcomes in vocational training. In the meantime, overall investment should not be reduced, and indeed more targeted effort should be placed on increasing apprenticeships, particularly for school to work transitions and disadvantaged groups, to reduce the reliance on welfare support.

Additionally, the priority is to focus on improving quality across the system, and in turn improving pathways and recognition of prior learning so that students do not have to duplicate learning which is resulting in wasted public funds.

### **Traineeships**

The policies of the previous Government, most specifically with the removal of non-trades apprenticeship incentives and mature age trade apprenticeship wage subsidies have had a significant negative impact on apprenticeship numbers. The major impact to commencements occurred after July 2012 when the 2012/13 Budget and MYEFO cuts took effect.

### **National Partnership Agreement – VET:**

The Federal Government must maintain, at a bare minimum, current funding to VET through the National Partnership Agreement. The Agreement provides a timely opportunity to secure commitment to reform from the jurisdictions, and should be focussed on the apprenticeships system and the development of a national taskforce.

The Federal Government needs to prioritise better overall coordination and a clear delineation of responsibility in vocational education to encourage action. Rates of attainment and misplaced funding priorities in this space have allowed attainment rates to fall; this is the antithesis of creating an agile, future-proof economy.

The government should work with industry to better promote apprenticeship and traineeship pathways as a high value employment opportunity to school students, existing workers, and





unemployed Australians. More care needs to be taken to clearly articulate the benefits of all post-secondary qualifications to students. Moreover, the Government should prioritise re-skilling older workers and prioritise pathways to employment in industries like retail. This will assist in leveraging mature-age workers' experience, whilst providing high-level, transferable skills, to enable people to stay in the workforce for longer.

### ***Policy Principles***

- Increase funding for VET and introduce policies to boost apprenticeship numbers;
- At a minimum, maintain funding in the vocational education and training system at current levels.

### ***Policy objectives***

- Facilitate a truly national apprenticeship and traineeship system, with a standardised, national approach for qualifications and apprenticeships, with required course standards to remove inconsistencies;
- Remove duplication and better align Commonwealth, State and Territory programs, services, and funding related to apprenticeships and traineeships;
- Examine barriers to apprenticeships and formulate a national pathway scheme to encourage a consistent approach;
- Improve commencements and completions of apprenticeships and traineeships.

To achieve this, the Government should:

- Establish an apprenticeship taskforce involving industry and Federal and State Governments to examine the issues impacting on apprenticeships and facilitate action, with a particular focus on recommending how best to improve the business case for employers offering apprenticeship and traineeship opportunities.

### **Skilling Australians Fund:**

The Skilling Australians Fund (SAF) announced in the 2017/8 Budget was implemented to coordinate and drive apprenticeship outcomes. However, to date, the SAF has not lived up to its expectations, due in part to the high fee levels attached to skilled migration visas to fund





it. Higher costs discourage employers from participating in the schemes intended to fund the SAF, which has created uncertainties in driving reform outcomes from the States and Territories. This has led to a major decline in investment in VET, which is a major concern.

This is not to say that the ARA is not supportive of the SAF and its intended goals; in fact, retailers can stand to benefit from SAF outcomes. However, the excessive fees and training levies attached to the Employer Nomination Scheme have formed a barrier to access, and this has a detrimental effect on the SAF's overall success. This Budget, the ARA would like to see the funding model improved to encourage positive results from the SAF.

The ARA would also like to see funding allocated to expand the role of the SAF to replace the role of the now defunct Industry Skills Fund. The ARA and its members strongly supported the Fund, although saw it should have been more efficiently managed. Our experience, and that of our members, would indicate the process and complexity for SME retailers made the Fund difficult to access. The Industry Skills Fund was a good concept; various iterations of similar programmes have worked in the past and we believe this is a necessary and useful concept which we encourage the Government to pursue.

### ***Policy objectives***

- Increase certainty of outcomes from the SAF by reducing transaction costs for employers accessing skilled migration schemes;
- Improve the overall funding model of the SAF to encourage positive outcomes and effective results;
- Expand the role of the SAF to replace the functioning of the now defunct Industry Skills Fund;
- Consider the implementation of a National Apprenticeship Advisory Council to guide SAF decision making.

### **VET architecture**

ARA members support the basic underpinning of the structure of the VET system as the development of training packages which are reviewed to reflect changes in occupations and skill needs. The ARA is concerned changes could see major national businesses develop unaccredited non-transferable packages if there isn't comprehensive enough consultation with industry stakeholders. We see real issues around the funding structure to allow adjustments to packages and updates to those packages.





Statistical infrastructure and labour market forecasting underpins changes in a whole range of areas, including, but not limited to, skills need and training particularly in migration, employment, and education policy. The infrastructure currently used, ANZSCO is outdated and has not been reviewed since 2013. With major changes to Australia's economy and jobs, including technology and changes in the requirement of skills, ANZSCO should be reviewed immediately.

This is essential to ensuring a proactive, flexible and responsive VET and apprenticeship structure in Australia.

### ***Policy objectives***

- Commit to funding an immediate review of ANZSCO to update labour market forecasting;
- Investigate and implement an updated workforce development strategy.

### **Employment**

The economic and fiscal policy context for this important priority is increasing workforce participation to improve productivity and reduce welfare dependency. The ARA has been working closely with industry and government to develop the PaTH program to deliver the needs of industry while addressing jobs opportunities for job seekers.

Employment services need to be employer-facing, not supply side driven. All indications are that the new system addresses many of the industry needs and we look forward to seeing how effective government changes will be as the new system is implemented with retailers working with government to improve outcomes.

The Federal Government should begin the process of reviewing employment services. Cognisant of the fact the current JobActive contracts are in place until 2019, 2018 is an ideal time to trial and pilot new programs with new technologies. Work needs to be done to ensure employment services are client facing, ensuring the jobseeker and potential employer have access to the system to look up jobs or post jobs – guaranteeing the job services area has a truly informed market.

The Government should fund the development of a technology platform that would enable access to available jobs by service providers, employers and jobseekers.

The Government should identify a suite of qualifications with high employment outcomes and attach training funding and employer incentives in a program aimed at a minimum of 50,000





unemployed young Australians over two years to assist them in gaining employment and training through an apprenticeship or traineeship.

A small pilot of this program could be delivered through the Try, Test, and Learn fund.

## **A reduction of the red-tape burden on business**

Significant efforts have not been made to reduce regulatory overlap, modernise Australia's regulations, and remove red tape, which is impeding on economic growth. Governments need to ensure that well-designed regulation underpins the effective functioning of the federation as well as supporting the seamless operation of a national economy and business efficiency.

Every new regulation, tax, law and public servant increases the compliance burden for business. The ARA supports the fundamental principle of small government, which removes the laws and regulations which create unnecessary time and cost burdens for business. According to the World Economic Forum's *Global Competitiveness Index*<sup>8</sup>, Australia ranks 80<sup>th</sup> out of 137 countries for 'Burden of Government Regulation.' This places Australia behind several third-world nations according to the report. This is unacceptable in an advanced economy.

The ARA supports work already underway in some states and see the mechanism of competition policy as a means of driving this critical reform. However, the ARA is also advocating for the Federal Government to build on efforts already touted for regulatory reform. The Federal Government should re-commit to the National Partnership on Regulatory Reform announced in the 2017/8 Budget to drive regulation reduction through COAG. In addition, the ARA suggests the Federal Government should appoint a National Red Tape Reduction Coordinator, like the Tasmanian example, to drive the process.

From our work, retailers are clearly identifying the size and bureaucracy levels within local government as creating significant delays and compliance for business. At present, there are numerous examples where retailers, and businesses more generally, must engage with multiple regulators, with different time frames and different requirements, sometimes on one issue alone. Some particular areas for retailers across the country include:

- Entirely inconsistent trading hours regulations across and within various jurisdictions;
- Transportation restrictions differing between States and Territories creating holdups to supply chains and the service economy;

---

<sup>8</sup> World Economic Forum 2017, *The Global Competitiveness Report 2017-2018*.



- 
- Continued inconsistencies in VET between jurisdictions and a lack of accountability preventing job creation and business investment.

### ***Efficient, cost effective & fair policy objectives***

- A net benefit approach to new and existing regulation or laws;
- Advancement of the National Partnership on Regulatory Reform announced in the 2017/8 Budget;
- Appointment of a National Red Tape Reduction Coordinator to drive outcomes from the Partnership, and a benchmarked red tape reduction target;
- Use of competition policy and COAG to force removal of overlap and duplication resulting from differing Commonwealth and State regulations;
- An emphasis on the shift from a detailed and prescriptive 'input-based' approach to a broader 'output-oriented' approach;
- Appropriate accountability to ensure that essential objectives of regulation are achieved without unduly restricting or impacting on business;
- Regulatory structure which involves adequate consultation, assessment of the alternatives to regulation, accurate cost/benefit analysis and the monitoring of the performance of regulatory agencies;
- New regulatory culture with an understanding of business processes and the burden created by regulatory compliance, and a commitment to advancing a 'business-friendly' operating environment.

### **Planning**

The Council of Australian Governments (COAG) should be the recommended body used to facilitate a national approach which will create a greater availability of retail space in retail activity areas driven by the Federal Government. Excessive regulation at Local Government level including planning and zoning laws and by-laws are curtailing opportunity and imposing costs on the overall economy.

Onerous development and planning requirements deter business establishment and expansion, and constrains prosperity in our regions. While tenancy costs are driving retailers out of the marketplace, the quagmire of planning and zoning regulations act as a further





barrier to viable alternatives. Retailers are urging the Government to commit to action in the 2018/9 Budget to fund and drive a reduction in superfluous red tape at State and local government level.

The ARA supports any move to create a greater competitive environment which allows retail development to be a positive outcome. We would like to see a mechanism facilitated by the Federal Government through COAG to achieve this outcome. The ARA also notes that new State Government Budgets have implemented real change; at least one State Government has ably dealt with planning and regulation with others hopefully following suit.

Moves to improve planning and zoning should into consideration the social and economic impacts of 'dead centres' when local government undertakes assessment of new 'out-of-centre' proposals. The ARA would support this if part of that assessment would still allow rejuvenation projects in existing retail areas. It is also important to consider 'out-of-centre' developments which are beneficial to the community, such as outlying areas.

With improving technology, local government could undertake large parts of the approval processes electronically using methods such as process application interfaces. As an application is processed, applicants could instantly view progress and issues, before attempting to continue, and address the issue immediately. This would limit the appeals process, improve the ability of council staff to understand the commercial implications of any delays and gain an understanding of how significant delays can be for developers and retail tenants.

### ***Policy objectives***

- Commit to an expansion of the National Partnership on Regulatory Reform to address issues with local government regulations such as planning and zoning;
  - ARA will support moves which reduce unnecessary regulatory development costs and delayed outcomes;
  - Drive the implementation and uptake of technology including process application interfaces to improve efficiency, accountability and oversight in planning approvals;
  - Awarding costs against vexatious planning appeals would, in all reason, reduce compliance costs, time and funding costs for retail developments. As with a number of these matters, the Commonwealth would need to look at ways of facilitating this move through mechanisms such as COAG.
- 



## ***Specific Measures:***

### **Retail tenancy reform**

The dependency on securing tenancies within shopping centres poses a significant structural challenge for the ongoing viability of the retail sector. The oligopolistic nature of shopping centre ownership and a retail tenancy regime which is skewed in favour of large-scale landlords present an inherent disadvantage to Australian bricks and mortar retailers in terms of equitable competition.

The ARA has agreed with the overall intent of Productivity Commission reports that all of the current national Tenancy Working Group projects overseen by COAG must achieve a more equitable framework for retailers when negotiating leases; however, this needs real Federal Government support to drive change. The ARA does recognise that some State Governments have identified issues with transparency of information and level playing fields and commends those governments for acting to rectify competition issues.

In addition to the base rental cost, a significant additional rental expenditure is categorised as 'turnover rent,' whereby, built into the rental agreement, the landlord is entitled to a percentage of takings in addition to the minimum rent payable.

A retailer conducting business in a rental premise has little long-term certainty, significant costs associated with set-up, and relocation is heavily leveraged at the point of re-negotiation. Due to the standard terms of a lease, which is usually five or seven years, a retailer has no security and can be told to leave the premises for the simple reason of "not fitting" with the centre's image, notwithstanding the investment into the retail space. Retailers are subject to the perceived threat that an alternative tenant is prepared to pay more for the same tenancy.

Federal Government leadership can assist retailers in providing certainty and transparency in addressing these issues. The Government is well-placed in this Budget to drive reforms through Federal mechanisms such as COAG. A reduction in rental costs for retailers will see a lift in productivity and entail net-benefits for the broader economy.

The ARA seeks to require that a sitting tenant must be offered both first- and last-right of refusal to release retail premises prior to a landlord executing a lease for another tenant. We believe that such a mechanism will impel landlords to meet the real market value for the demised premises, while preventing coercion and veiled threats or misrepresentation of the true facts regarding alternative tenants. We also believe this mechanism will create an environment conducive to bargaining in good faith, fair disclosure and transparent undertakings.

This mechanism also provides a solution to the problem experienced by a retailer where a sitting tenant effectively gives over a large percentage of goodwill to the landlord (via





increased rent) as a defence to the threat that a third party will take over the lease at a higher rent without having to purchase the goodwill of the existing business.

### ***Policy objectives***

- The 'turnover rent' provisions by landlords determining rent increases which are geared within what a retailer 'can afford to pay' rather than a common and transparent market rate mechanism thanks to accrued data provided under 'turnover rent clauses' needs removing;
- The structure of such a term is usually based around financial requirements within the lease to pay a percentage of turnover rent as an additional rent component. Almost without fail, this financial requirement to pay turnover rent is set at such an unrealistic level of turnover which would most likely never be achievable by the tenant;
- The ARA believes the retailer's monthly turnover figures should be reported by the tenant to a third-party aggregator. These figures can then be advised from the third-party to the landlord on an aggregated category basis, which would allow landlords access to the statistics they require to run a centre, and retailers a level playing field (an exception could apply if the rent paid by the retailer was based solely as a percentage of tenants' turnover figures);
- In the period after the current lease term is expired, but prior to a new lease being agreed to, the tenant is regarded as being the occupant month-to-month under a 'lease hold over provision' period. If, and when, a new lease is signed at a different rate, the retailer is obliged to pay back the difference and this is obviously an unbudgeted and unexpected financial burden to the individual retailers.

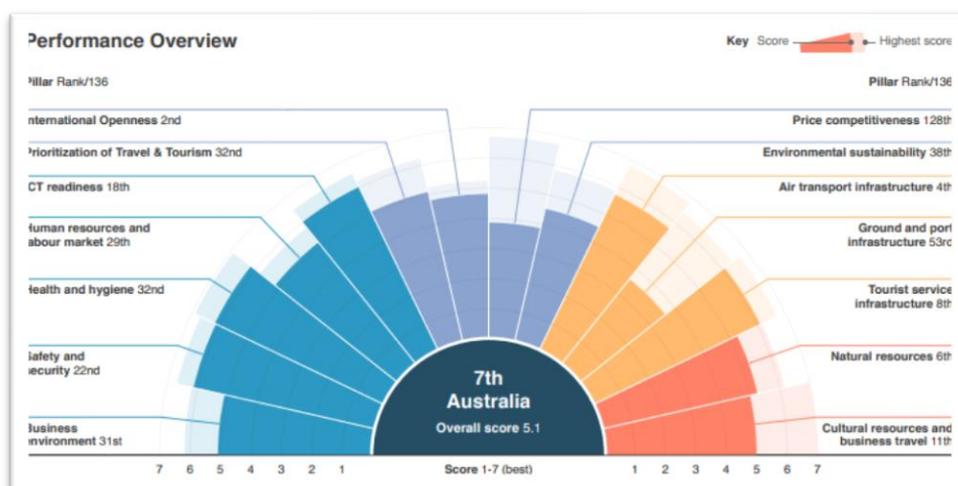
For these reasons ARA, would require these changes to protect tenants' turnover and any other commercial in-confidence information which could impact on negotiations with landlords.

### **GST Tourist Refund Scheme initiative**

Over the past ten years, Australian retail and tourism industry groups have indicated their support for enhancements to tourism shopping arrangements in Australia. Central to these calls is reform to the current Government-controlled Tourist Refund Scheme (TRS). Australia currently lags many other countries around the world, where private providers operate a more efficient TRS and actively promote the service as a key offering to international visitors.



The introduction of a private provider platform will enable innovations to enhance Australia as a tourism shopping destination, and help swell overall spend by international visitors to Australia. Furthermore, a private provider platform will enable a more streamlined experience for travellers at the border and enhance the experience for travellers at our vital international gateways.



Australia is world-renowned as an international tourist destination; this is reflected in the World Economic Forum's *Travel and Tourism Competitiveness Index*<sup>9</sup>, where Australia ranks seventh globally. However, on price competitiveness, Australia ranks as the 128<sup>th</sup> country out of 136 countries assessed. Given the strain placed by the current economic climate on the tourism and retail sectors, changes to Australia's TRS will only benefit the sector, as well as increasing Australia's attractiveness as a retail tourism destination.

We see this as an opportunity to leverage the full potential of tax-free shopping to make Australia an attractive shopping destination for overseas visitors. This initiative represents a tangible step towards increasing the yield by international visitors whilst in Australia.

This would also allow Australia to better compete with our Asia-Pacific neighbours, who currently enjoy the benefits of private providers marketing local shopping opportunities. Expert private providers have an incentive to market countries as an international shopping destination in a way that a government-run scheme cannot do.

<sup>9</sup> World Economic Forum 2017, *'Travel and Tourism Competitiveness Index'*.



Below are our key recommendations to the current scheme that are being proposed:

**Recommendation 1:**

- That policy makers adopt as policy, a competitive open-market model for GST refunds for departing travellers under which private providers (such as Global Blue) may provide tourist refunds under the TRS.

**Recommendation 2:**

- Government adopt as policy a digital TRS system, similar to the Singapore model, to improve customer service, enhance fraud prevention and create operational and head count savings for the Australian Customs and Border Protection Service (Customs).

**Recommendation 3:**

- Policy makers also examine the potential cost savings to be derived from outsourcing the export verification compliance function of Customs to an independent service provider (as occurs in at least one overseas country).

## **Counterfeit product and intellectual property rights**

Today's global threat environment is characterized by convergence: the merging of an ever-expanding array of illicit actors and networks. The pipelines that link these illicit markets and networks cut across borders, infiltrate and corrupt public institutions and legitimate markets, penetrate fragile governments, and undercut the interests and security of all market stakeholders across the international community.

The harm caused by these illicit actors and threats are of increasing concern in both the public and private sectors, and contribute to the booming illegal economy that supports and enables corrupt officials, criminals, terrorists, and their facilitators.

In this globalized world, the uneven application of cross-border enforcement enables illicit actors and networks to exploit differences in regulatory policies to extract maximum illegal profits. Policy levers activated in one country or market frequently have the undesired effect of driving crime from that country or market into another where regulation and enforcement are less stringent. The trade in counterfeit and pirated goods is an example of a crime type that flourishes anywhere that is not protected.

Here in Australia, where legislation and enforcement are weak, counterfeiting is a significant problem, affecting brand owners and consumers across all industries. Although the serious impacts of counterfeiting have long been known, Australia's anti-counterfeiting laws have





simply not kept pace with the problem. Indeed, the flow of fake goods into Australia, and their sale in our markets, continues unabated.

In 2018, the ARA plans to expand and re-energise AUSCAP (Australians to Stop Counterfeiting and Piracy), leveraging the influence of its members to effect change in both legislation and enforcement.

Our main objectives regarding law reform around counterfeit goods are:

- Improved border control measures to identify and halt the importation of counterfeits;
- Institution of a 'no counterfeits' declaration on passenger arrival cards used for entry into Australia
- Clarification regarding the right of citizens and companies to act as 'private prosecutors' in criminal cases involving counterfeit products;
- Increased public awareness of the impact of counterfeit products;
- Act to investigate and reduce the impact of 'grey importing' on retailers and wholesalers;
- Removal on restrictive publisher rights impacting retailers;
- Removal of the 'personal use' exemption for importation of counterfeit goods under the *Trade Marks Act 1995* (Cth).

The ARA along with members and stakeholders are undertaking research work to identify issues and needed measures in greater detail.

### **Parallel Importation of Books**

The Federal Government has agreed to repeal existing parallel importation restrictions (PIRs) on books after accepting the Competition Policy Review's recommendations to drop PIRs. The Government published a [full response to the report](#), saying it would commence removing the restrictions once the Productivity Commission's (PC) Intellectual Property Inquiry was complete.

The PC has now published its final report on Intellectual Property and the ARA agrees with the following recommendations:

- Replace Australia's existing fair dealings exceptions in the Copyright Act with a broad and open-ended fair use exception;
- 

- 
- **Repeal parallel importation restrictions for books;**
  - Strengthen the *Copyright Act* to make clear circumventing geoblocking technology is not a copyright infringement;
  - **Develop best practice guidance for developing IP provisions in international treaties;**
  - **Work with like-minded countries through multilateral forums to achieve more balanced IP settings and to reduce transaction costs.**

The ARA represents Australia's largest book retailers and call on the urgent implementation of these measures to level the playing field with international competition and reduce prices for consumers in Australian based businesses.

PIRs do not impact evenly upon Australian retailers. Australian online retailers currently have the advantage of effectively circumventing PIRs. They can source from overseas suppliers enabling them to supply books often more quickly and cheaply than they can through a local publisher. Physical book retail stores are constrained by outdated agreements with only one method of supply - the Australian based publisher.

The removal of PIRs will give local suppliers stronger incentives to provide greater efficiencies in their operations, sharpen their supply chain practices and make their prices and delivery times more competitive. These benefits would be passed on to consumers through lower prices and wider product ranges.

The Government has said the removal of PIRs will *'make local booksellers more competitive with international suppliers, promote lower prices for consumers and ensure the timely availability of titles.'*

Representations from publisher-aligned groups only protect the profits of those organisations and misrepresents the impacts on Australian book retailers, while overplaying international publisher support of Australian authors.

Removing these restrictions would create an open market for books, enabling Australian booksellers the freedom to choose from local and overseas suppliers. This would lead to globally competitive prices and quicker availability on book titles, which will provide a net benefit to consumers. It would also encourage greater efficiency from both retailers and publishers/suppliers in the Australian market and ultimately support a vibrant and flourishing publishing and book retail industry. This will benefit all Australian readers as well as the broader Australian economy.

The ARA strongly recommends the removal as a Budget measure which will improve the economic performance of the retail sector and put cash back into consumers' pockets.





## Executive summary

The ARA has a long tradition of representing the retail sector. Considering the uncertain economic times our nation is now facing, we are calling on the Government to remember the importance of the services sector as an overall proportion of Australian economic activity and job creation. Retail is one of the few forecasts growth areas of the economy over the forward estimates.

- Responsible economic management and expenditure restraint;
- Commitment to lowering the Corporate and Individual tax rates;
- No new taxes, or increases in existing taxes such as excise taxes;
- The only exception should be broadening of the GST base or raising the rate to lower inefficient taxes and reduce the tax base;
- Keep Australia's AAA credit rating;
- Continued regulation reform and harmonisation;
- Accelerated private infrastructure investment and planning reform;
- Commitment to the services sector through Vocational Education Training;
- Industrial relations advocacy to support more flexible employee working hours and agreements in the retail sector and reform of Fair Work;
- Support major transport infrastructure development to resolve supply chain efficiencies;
- Increased support for SME innovation and digital economies of scale.

Our members thank Treasury and the Treasurer for the opportunity to be involved in this consultation and we would be pleased to discuss this submission further, at your convenience.





Kind regards,



Russell Zimmerman  
Executive Director  
Australian Retailers Association



Heath Michael  
Director of Policy, Government & Corporate Relations  
Australian Retailers Association

