

The threshold question:
Economic impact of the low value
threshold on the retail industry

National Retail Association Ltd

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 **ERNST & YOUNG**

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Executive summary

The retail sector is an important part of the Australian economy. It is a major source of employment and accounts for around 1.3 million full time and part time jobs.

The sector is undergoing transformation, driven by a range of pressures including the growth of online retailing, overseas competition, and a tougher retail environment characterised by slowing sales growth. Industry employment has fallen in relative terms from 13.6% to 10.7% of all jobs in the Australian economy between 2001 and 2011.

With the rapid growth of online retail and the bulk of this growth expected to accrue to overseas retailers, around 118,700 traditional retail jobs in Australia could be lost to the online sector by 2015. This equates to a loss of one in 11 jobs in the traditional retail sector.

Of the 118,000 jobs lost, up to 33,400 of the job losses can be directly related to retail sales going to overseas online providers as a result of the continued operation of the LVT as people shift more of their spending towards overseas retailers and away from domestic (online and traditional) retailers. This loss is, therefore, avoidable if the LVT is abolished. Regardless of the LVT, the remaining 84,600 jobs would be lost to the traditional sector due to the structural changes and competition caused by the growth of online retailing.

The objective of this report is to quantify the economic impact of the “Low Value Threshold” (LVT). Under this current regime, low value imports are exempt from the Goods and Services Tax (GST) and associated duties. Effectively, this allows overseas retailers to enjoy a price advantage over Australian retailers.

While the LVT does not explain the entire price difference between Australian and overseas online retailers, it is still a significant component (equating to 14% of the sale price on average). These price distortions ultimately lead to inefficient patterns of consumption, production, investment and resource use in Australian retail.

In summary, by continuing with the LVT (as opposed to abolishing it), the following impacts are estimated (by 2015):

- ▶ **Up to 33,400 jobs** would be lost in the retail sector as people shift spending towards overseas retailers and away from domestic (online and traditional) retailers
- ▶ Gross Domestic Product of between **\$3.9b** and **\$6.5b** would be forgone.

The Productivity Commission has noted that there are strong in-principle grounds for the LVT to be lowered significantly.

The tax free import thresholds in most other countries are much lower. This suggests that the administrative costs of lowering the threshold may not be too significant. Canada (CAN\$20), the UK (£15 for VAT and £135 for customs duty), USA (US\$200), South Korea (W150,000) and New Zealand (between NZ\$220 and NZ\$400) for instance, are able to collect taxes from a greater proportion of imports than compared to the Australian regime.

The UK has recently reduced its LVT from £18 to £15. It is also planning to abolish the LVT on all goods imported after 1 April 2012. These reforms were in response to unfair competition from overseas

retailers, as well as retailers deliberately relocating their operations to supply goods from outside the EU to UK consumers

The abolition of the LVT would result in additional costs being incurred including the costs of collecting additional tax on low value imports. While other studies have attempted to estimate this cost (ranging between \$1b and \$1.6b), they are likely to be overstated. For example, these studies have been based on current processing costs and purchasing volumes, with there being no consideration of the likely impact of technological advances to reduce mail processing costs and tax collection procedures along with the benefit of economies of scale.

These studies have also considered the identification of the benefits of the LVT removal but the quantification of the benefits have suffered from similar constraints, particularly the identification of benefits based on current rather than expected future volumes.

By abolishing the LVT, there are also a range of efficiency benefits that would accrue and which have not been quantified in this report. These include the induced impacts associated with stimulating investments in online retail.

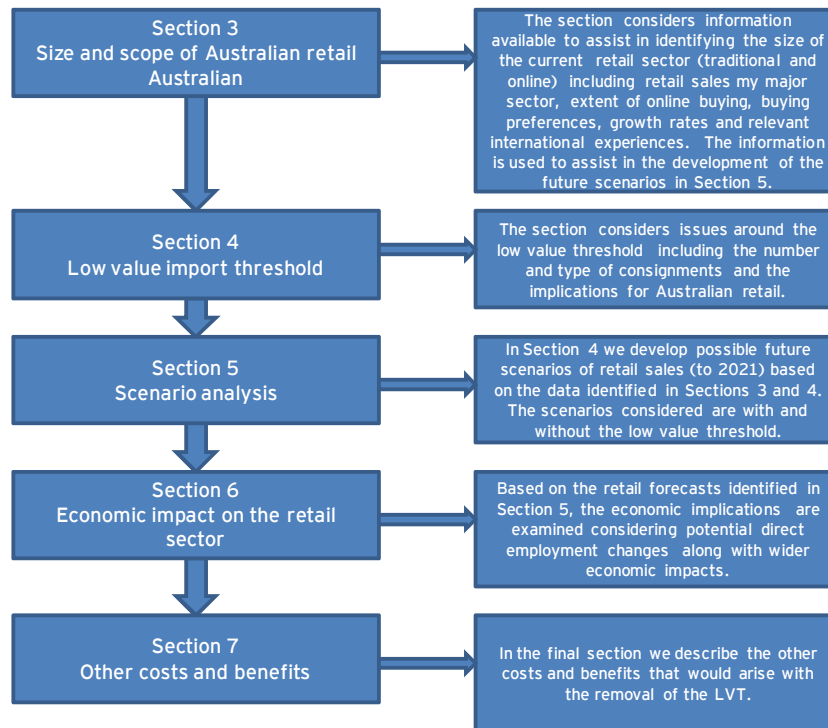
Therefore, we would suggest that past cost benefit studies undertaken may not have been of sufficient rigour to ultimately provide a reliable basis for decision making (for a number of reasons including data constraints).

It is probable that, in fact, the costs of removing the LVT are outweighed by the significant economic benefits and welfare gains of having a more competitive retail sector. In particular, by 2015, substantial levels of economic activity will occur if the LVT is removed (between \$3.9b and \$6.5b in GDP).

1. Structure of this report

An overview of the structure of this report is outlined in Figure 1 (below). It includes an outline of data and methodology, outcomes from our modelling and analysis, and a discussion of further benefits and costs associated with the Low Value Import Threshold.

Figure 1: Overview of the report structure



2. Introduction

Online retailing is currently experiencing rapid growth in Australia, with sales increasing to both Australian and overseas online retailers. Evidence suggests that the rate of annual growth in online retailing is likely to substantially exceed traditional or shop-based retailing in the foreseeable future.

With online retailing turnover projected to grow to \$29.3b by 2015, significant structural change in the sector will occur. This equates to turnover that would support 118,700 jobs in the traditional retail sector. Going forward, a key policy question is to what extent these jobs would be retained in Australia.

While online retailing provides opportunities for Australian online retailers, they also face challenges. Particularly, local online retailers are disadvantaged by the low value threshold (LVT) on goods imported into Australia. Currently, no GST or duty is payable on consignments valued at less than \$1,000. LVT imports are also exempt from customs fees/charges and make no contribution (via customs fees) to customs or border protection infrastructure.

Project objectives

This report was commissioned by the National Retail Association (NRA), with a view to obtaining an independent economic analysis of the impact of the online retail sector under the current Goods and Services Tax (GST) /duty regime on the national economy. The impact of potential taxation reform scenarios going forward is also considered. More specifically this report has sought to:

- ▶ Make assumptions about potential growth in online retail and the overall Australian retail industry, assuming the existing GST/duty regime continues.
- ▶ Quantify the potential impact of removing the low value threshold on Australian retailing and the wider economy, in light of the potential growth trajectory.

Analysis of the impact associated with lowering the threshold (rather than abolishing it) was outside the scope of the analysis. This is because lowering the threshold (say to \$200) would not capture the vast majority of low value transactions.

3. Size and scope of Australian retail

This section quantifies the size of the Australian retail sector, and describes its different segments. It also discusses other estimates of the size and reach of the online retail sector in Australia. This information is used in subsequent sections to inform the development of the retail forecasts.

3.1 Australian retail sector

The Australian Bureau of Statistics (ABS) estimates the size of the Australian retail sector (in terms of turnover) at \$245.2b in 2010-11. The largest retail segment is food (40.1% of turnover), followed by household goods (17.5%) and other retail (14%). Excluding cafes, restaurants and takeaway food, the total value of Australian retail turnover becomes \$213.2m for 2010-11.

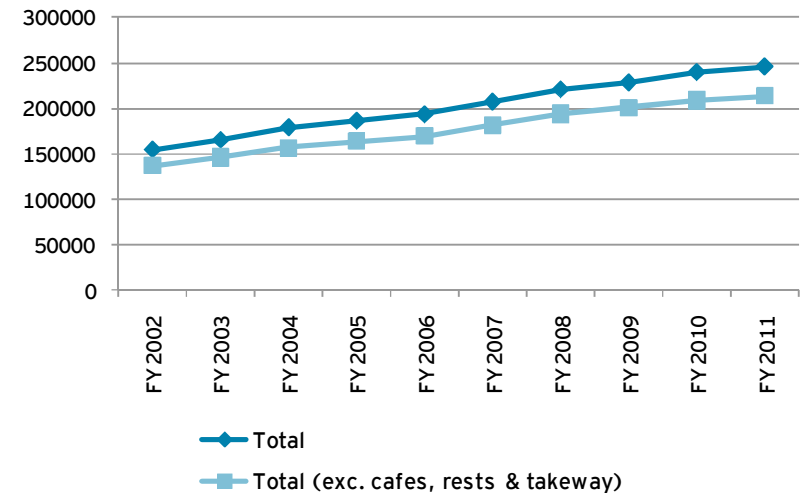
Over the past 10 years, retail turnover has grown at a compound rate of 5.56% p.a. Growth, however, has been slower in more recent years, averaging 4.9% p.a. in the past 5 years, and 3.7% in the past three years. This could be due to a range of reasons, including changing consumption patterns and the impact of the global financial crisis.

The Australian retail sector is projected to grow in nominal terms by between 3 and 4.5% per annum over the next five years. In particular:

- ▶ Morgan Stanley (2011) predicts 4.5% growth p.a. from \$250.9b in 2011 to \$300.2b in 2015 (all segments)¹

- ▶ National Retail Association (2011) assumes 3.0% p.a. growth from \$223b in 2010 to \$258b by 2015 (excluding cafes, restaurants and takeaway food segments).²

Figure 2: Australian retail turnover (\$m)



Source: Australian Bureau of Statistics (2011) Retail Trade, Australia, Catalogue Number 8501.0. Trend estimates.

¹ Morgan Stanley, *Australian Retail: Internet Retailing Boom 2.0*, 2011

² From modelling undertaken by the NRA.

Retail sales by major segment are outlined in below.

Table 1: Retail sales by major segment, 2011

Item	Value (\$b)	% share
Food retailing	\$98.4	40.1%
Household goods	\$42.8	17.5%
Clothing, footwear and personal accessories	\$19.2	7.8%
Department stores	\$18.4	7.5%
Other	\$34.3	14.0%
Cafes, restaurants and takeaway food	\$32.0	13.1%
<hr/>		
Total (all)	\$245.2	100.0%
Total (excluding cafes, rest. and takeaway food)	\$213.2	86.9%

Source: Australian Bureau of Statistics (2011a) Retail Trade, Australia, Catalogue Number 8501.0. Trend estimates.

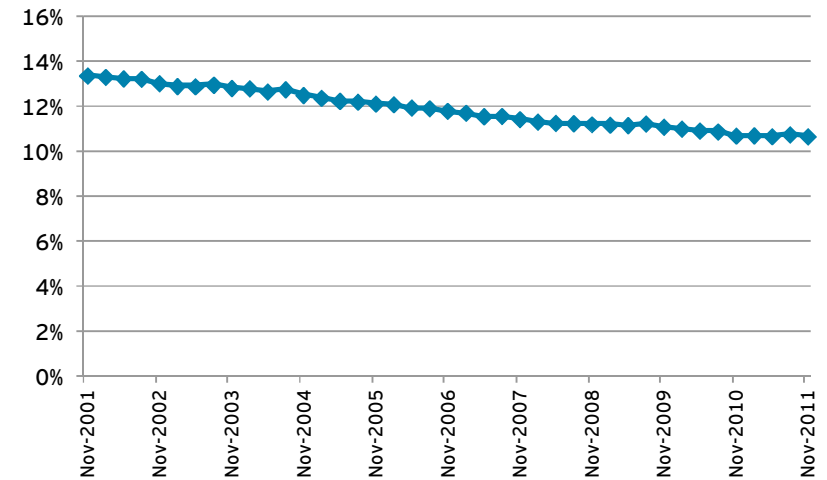
Note: The ABS figures would include internet sales of large national retailers, but may not include turnover from smaller online stores. Also, it would not include spend on overseas sites (such as Amazon) as overseas businesses are not sampled. Hence, it understates total retail purchases by Australians.

3.2 Declining share of Australian economy

While the sector is growing steadily in absolute terms, it is experiencing a decline in terms of its share of the Australian economy.

In particular, industry employment has fallen from 13.6% of all jobs in the Australian economy 2001, to 10.7% in 2011.

Figure 3: Employment in Retail Trade as % of total Australian employment



3.3 Size of Australian online retail spending

The ABS does not currently collect data on online Australian retail. This is due to the relatively infant nature of this sales channel and the narrow range of businesses sampled by the ABS. Notwithstanding, numerous studies have attempted to estimate the size of this sector in Australia (see Table 2). There is some broad consensus that online retail in Australia is between \$9.4b and \$12.6b, or between 3.8% and 6% of retail sales. The key outliers are the Access Economics and PayPal studies (estimated at \$18.6b and \$26.9b respectively). These figures are larger than the other studies due to the inclusion of online purchases of items not typically considered as part of the retail industry (i.e., travel, events and movies tickets). While estimates of online retail's market share have ranged between 3% and 6% across the various studies, these are not always comparable due to the different definitions used for the size of the total retail sector.

Table 2: Value and market share of online sales: Meta analysis

Source	% of retail	Value (\$b)
IBISWorld (2011)	-	\$5.1b ^a
Urbis (2011)	3.9%	\$9.4b
Commonwealth Bank (2011)	3.8%	\$9.5b
NRA (2011)	4.7%	\$10.4b
Citibank (2010)	4.6 - 5.1%	\$11b to \$12.0b
Morgan Stanley (2011)	4.7%	\$12.0b
Frost & Sullivan (2010)	5.0%	\$12.0b
Productivity Commission (2011)	6.0%	\$12.6b
Access Economics (2010)	3.0%	\$18.6b - \$24.0b
PayPal / Forrester (2010)	-	\$26.9b ^b
Australian Institute (2011)	6.0%	-
J.P. Morgan (2010)	3 - 5.0%	-

Note: As pointed out by the Productivity Commission, the market shares are not necessarily comparable as some market analysts take out certain items from their estimate of online sales and total retail sales. This treatment is not applied uniformly.

^a domestic only ^b includes travel, events and groceries

Not all sectors of retail are exposed to online competition to the same extent. Higher online penetration rates occur in the retailing of newspapers and books, clothing and footwear, CD and DVDs, electrical and electronics, and department stores (see Table 3). Segments less exposed to online competition included groceries, foods and cafes.

Table 3: Online market penetration estimates (% of total sales)

Source	Market Segments
Citibank (2010)	Online penetration in key retail categories in 2010
	▶ 9% Books
	▶ 8% CD/DVD
	▶ 6% Apparel and accessories.
	▶ 5% Appliance and electronics
	▶ 5% Health and beauty
	▶ 1% Grocery and alcohol
▶ 3% All	
Morgan Stanley (2011)	Online penetration in key retail categories in 2011
	▶ 1.5% Food
	▶ 1.0% Cafes
	▶ 1.0% Takeaway food
	▶ 7.0% Clothing and foot wear
	▶ 10.0% Electrical and electronics
	▶ 7.0% Dept Stores
	▶ 5.0% Pharma
	▶ 4.0% Hardware
	▶ 6.0% Furniture
	▶ 40.0% Newspaper
▶ 5.0% Other	
▶ 4.7% All	

3.4 Why are Australians buying online?

People buy online for various reasons. Most commonly cited reasons include (Getprice (2011)):

- ▶ Finding the best price
- ▶ Saving time
- ▶ Easy way to compare offers
- ▶ Being able to shop after hours
- ▶ Being able to take as long as you want
- ▶ Being able to shop from overseas stores.

The Australia Institute (2011) survey had similar findings, with price (and saving money) being the key reason for adopting online retail.

Importantly, non-price factors also influence demand for online retail. These include convenience (although this could be factored into the overall price of shopping) and being able to purchase items that cannot be found in stores (i.e., variety).

Barriers do exist in the take up of online retail. These include “the need to see before buying” (46% of respondents) and concerns about security (23% of respondents).

Other reasons cited by Getprice (2011) on why people prefer to shop at traditional retail outlets include:

- ▶ Wanting the product immediately
- ▶ Not wanting to pay for shipping
- ▶ Wanting to discuss additional options, extended warranties and financing with retail staff.

Figure 4: Why do you shop online?

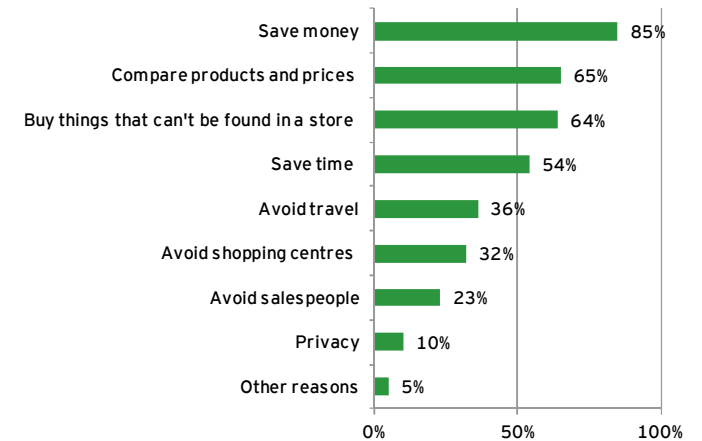
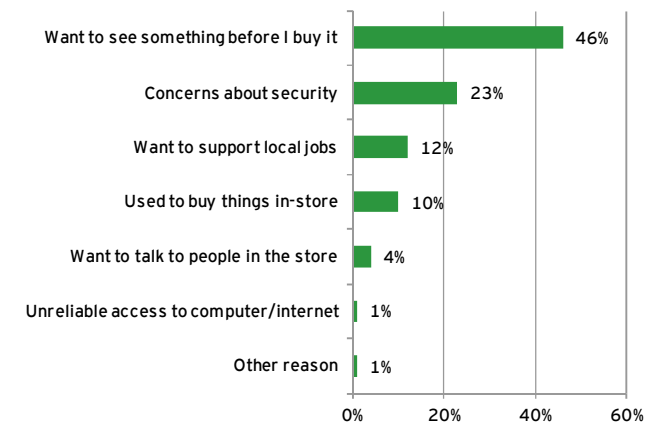


Figure 5: What's stopping you from buying online shopping online?

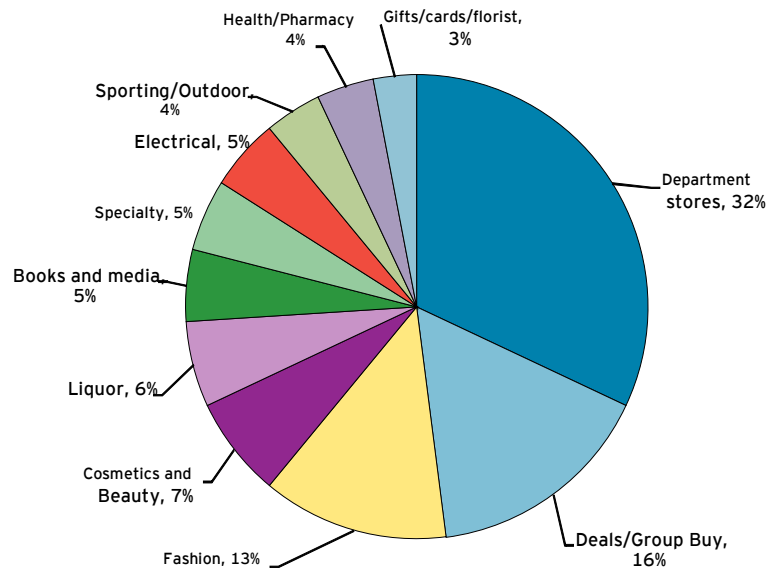


Source: Australian Institute (2011)

3.5 What are Australians buying online?

Commonwealth Bank (2011) analysis of online purchases made by their Australian credit card customers indicate that most purchases are currently with online department stores (such as eBay and Amazon). The second largest category is with deals and group buying sites (these purchases include vouchers for services such as restaurants and travel, some of which are outside of the definition of the retail industry).

Figure 6: Proportion of total online spend by merchant category: CBA Credit Card Customers



Source: Commonwealth Bank (2011)

This distribution of sales by value is important as foreign transactions under \$1000 are considered to be low value items and exempt from the Australian Goods and Services Tax (GST) and any applicable excise duties.

As Table 4 indicates, most online transactions are small in value - 73.4% -76.5% of all transactions are under \$100 in value, and around 98% of all transactions are under \$1000. This suggests that the low value threshold would need to be lowered significantly if the Australian Government is seeking to tax a greater proportion of overseas retail imports.

Table 4: Distribution of overseas and domestic purchases by value of transaction

Value of transaction	Domestic online seller (% of sales)	Overseas online seller (% of sales)
<\$100	73.4%	76.5%
\$100 >\$200	14.7%	12.8%
\$200 >\$300	4.9%	4.1%
\$300 >\$400	2.1%	2.0%
\$400 >\$500	1.1%	1.1%
\$500 >\$1000	2.2%	2.1%
\$1000 or greater	1.7%	1.4%

Source: Productivity Commission (2011 p.96) citing data provided by a major bank. Data for the period between June 2008 and February 2011.

3.6 Where are Australians buying from?

While estimates vary, around two-thirds of all online retail currently is with domestic retailers and the remaining one-third with foreign retailers (see Table 5).

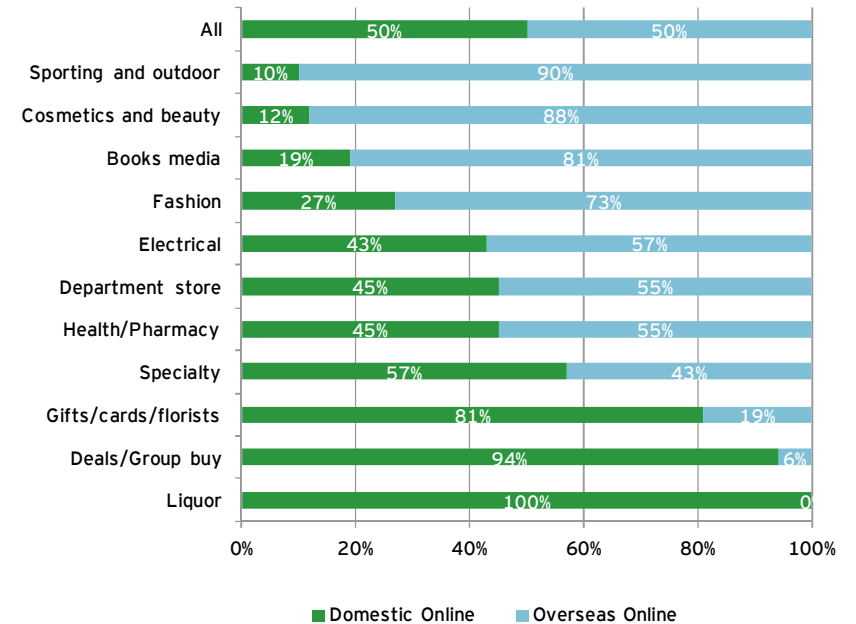
Table 5: Market share of online sales in Australian Retail: Meta analysis

Source	Domestic (%)	Overseas (%)
Commonwealth Bank (2011)	55.8%	44.2%
Frost & Sullivan (2010)	60%	40%
NRA (2011)	65%	35%
Citibank (2010)	65.2 - 71.4%	28.6 -34.8%
Productivity Commission (2011)	66%	33%
Access Economics (2010)	50-80%	20- 50%
Australia Institute (2011)	60%	40%

These market shares do vary by retail market segment (see Figure 7). In particular, domestic online retailers have a greater market share in the sale of liquor, group buys and florists (possibly due to the importance of having a local presence for these purchases).

Foreign online retailers were found to be significantly dominant in the online sale of *discretionary* purchases, including sporting and outdoor, cosmetics, books, and fashion (possibly due to the price and variety advantages of foreign online retailers over domestic retailers in these segments). This suggests that local retailers in these areas are already exposed to significant overseas competition. Recent surveys also suggest that overseas websites are attracting an increasing proportion of online shoppers in Australia. In the six months to April 2011, 19 per cent of online shoppers indicated that they mostly purchased from overseas sites, up from 12 per cent in the six months to November 2009. Of the 19 per cent of online shoppers in Australia who mostly purchased from overseas websites, 59 per cent did so because "it's cheaper" (ACMA, 2011).

Figure 7: Domestic versus Overseas market share by online market segment



Source: Commonwealth Bank (2011)

3.7 Growth in Australian online retail

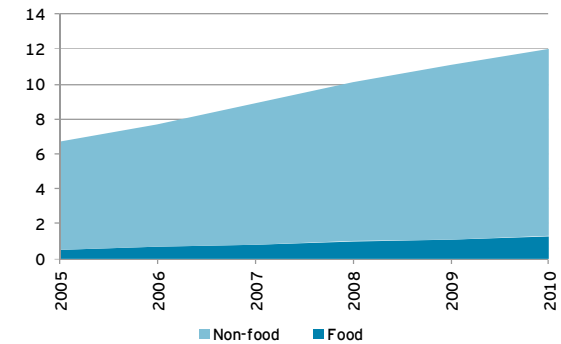
Historical growth

Official ABS time series statistics for Australian online retail spend are not available.

There are a number of third party estimates:

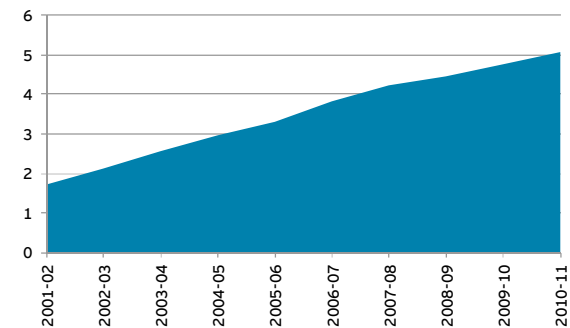
- ▶ Morgan Stanley (2011) estimates Australian online retail sales to have grown from \$6.7b to \$12b between 2005 and 2010, or a compound annual growth of 12.4% over the past 5 years. The large majority of this spend (around 90%) is on the non-food sector
- ▶ IBISWorld estimates that domestic online retailing grew from \$1.7b in 2001-02 to \$5.1b in 2010-11, or at a compound annual growth rate of 12.9% over a 9 year period.

Figure 8: Morgan Stanley estimates of AUS online retail turnover: 2005-2010 (\$b)



Source: Morgan Stanley (2011)

Figure 9: IBISWorld estimates of AUS online retail turnover (domestic), 2001-2010 (\$b)



Source: IBISWorld (2011)

Online growth going forward

The emerging nature of online retail means that it is difficult to predict its growth trajectory. A range of estimates of online retail growth is presented in Table 6.

Table 6: Online sales projections

Source	Growth forecast
IBISWorld (2011)	\$7.3b by 2015-16* (7.6% CAGR)
Frost & Sullivan (2010)	\$18b by 2014* (10.7% CAGR)
Morgan Stanley (2011)	\$20.4b by 2015 (20.4% CAGR)
NRA (2011)	\$20.6b by 2015 (14.7% CAGR)
PayPal / Forrester (2010)	\$36.8b by 2013 (11.06% p.a. CAGR)
Urbis (2011)	\$41b by 2020 (16% CAGR)

* = Domestic retail only.

While the extent varies, most estimates predict online retail to continue to outpace the long term growth rate of Australian retail overall.

This is due to the following reasons:

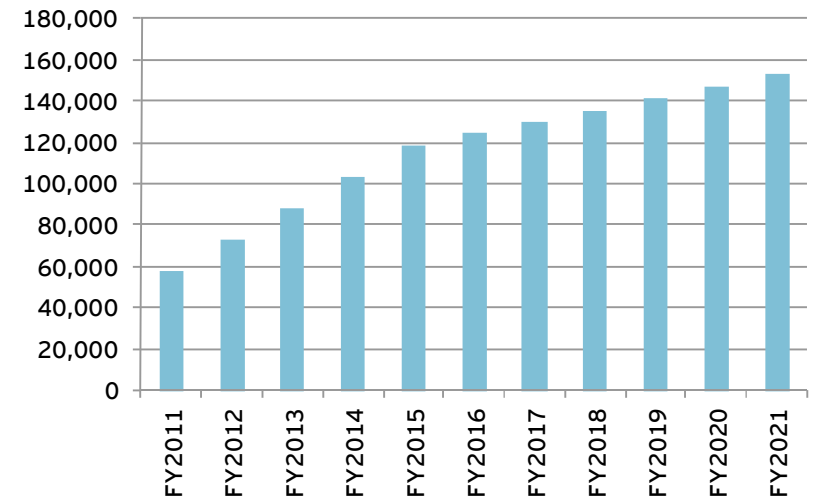
- ▶ Australian online penetration rates are still low relative to other countries such as US and UK, where penetration rates are around 7-12% of total retail sales (and increasing)
- ▶ Improved online shopping experiences/innovation and customer satisfaction making online retail more user friendly, thereby driving uptake
- ▶ Ongoing improvements and innovation in relation to secure online payment methods, making online purchasing safer
- ▶ Emergence of mobile commerce (i.e., shopping via mobile phones) will make it easier to transact online and compare prices between traditional retail and online retail
- ▶ Rollout of the National Broadband Network increasing broadband penetration and opening up opportunities for innovation in this sector.

3.8 Structural change due to online retail growth

With online retailing turnover projected to be \$29.3b by 2015, significant structural change in the sector will occur.

This equates to turnover that would support 118,700 jobs in the traditional retail sector.

Figure 10: Forecast number of jobs transferred from traditional retail to online sector

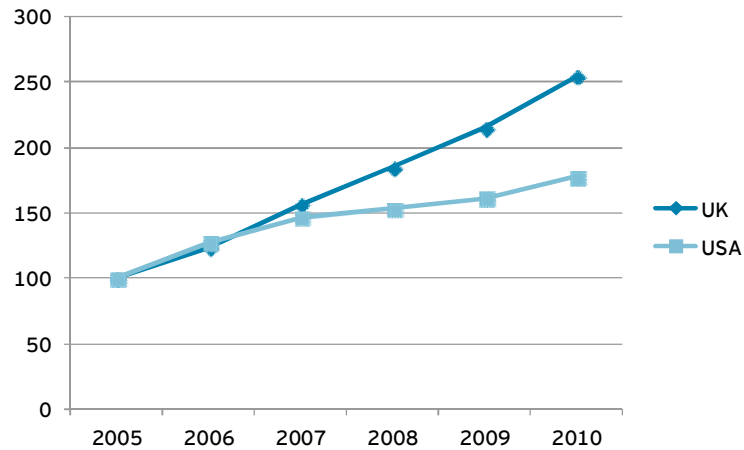


Source: Ernst & Young. Based on base case projections of online retail turnover divided by the sales to employee ratios presented in Chapter 5. Note these projections do not represent the impact of the LVT, just the impact of online retailing on traditional retailing. These jobs could be transferred back to the Australian economy (i.e., to domestic online retailers), or lost to overseas retailers.

3.9 Foreign experience

Online retail growth continues to be strong in the UK (averaging close to 20% year on year growth), while growth in the US is more modest (potentially indicating a more mature market).

Figure 11: Growth of online sales (Index: Year 2005 = 100)



Source: Morgan Stanley (2011)

Table 7 presents the different estimates about the level of online retail penetration for countries around the world. From this, Australia is a laggard country compared with other developed countries (particularly the UK and US).

This implies that there is considerable scope for the Australian online component to grow as a proportion of total retail turnover over time. The overseas experience suggests that online retail in Australia could reach between 7% and 12% of total retail.

Table 7: Market share of online sales in other jurisdictions

Source	Key findings
Productivity Commission (2011)	<ul style="list-style-type: none"> ▶ 7% of sales in the US and 10.5% in the UK (Bell Potter/Southern Cross Equities) ▶ 11% of retail in the UK (Centre for Retail Research) ▶ 8 to 9 % in the USA (Centre for Retail Research) ▶ 5.1% in the USA (US Census Bureau) ▶ 9.9% (Office for National Statistics).
Centre for Retail Research (2011)	<p>Forecast online share in 2011:</p> <ul style="list-style-type: none"> ▶ UK (12%) ▶ Germany (9%) ▶ France (7.3%) ▶ Italy (3.9%) ▶ Spain (3.5%) ▶ Norway (8.1%) ▶ Sweden (6.9%) ▶ Demark (8.0%) ▶ Switzerland (8.7%) ▶ Poland (3.1%)
Commonwealth Bank (2011)	<ul style="list-style-type: none"> ▶ US (7.3% of retail excluding food, auto, petrol and home improvement) ▶ UK (9.2% of all retail)
Morgan Stanley (2011)	<p>In the US, online retail grew from 2.6% to 4.2% from 2005 to 2010. Non-food component grew from 3.3% to 5.2% over the same period.</p> <p>In the UK, market share (excl. Auto and fuel) grew from 3.6% in 2005 to 8.0%. Non-food sector penetration increased from 5.4% in 2005 to 12.7% in 2010.</p>
J.P. Morgan (2010)	<ul style="list-style-type: none"> ▶ US (7.5% in Sept 2010 excluding auto. Food, petrol and food services) ▶ 9.6% in October 2010. ▶ Canada (5.4% in 2009)

4. Low value import threshold

4.1 Overview

In Australia, a GST is applied to most goods and services in the retail sector (with certain food and beverages and medical equipment being the main exempted items).

Most foreign goods entering into the country are also subject to the GST plus any applicable customs duty and fees. However, goods imported into Australia are exempt from these taxes and charges if the value of the consignment does not exceed \$1,000. This is known as the low value import threshold (LVT).

Overseas retailers therefore enjoy cost advantages over an Australian (traditional or online) retailer that sells the same or similar low value products under this arrangement by avoiding:

- ▶ GST of 10% on the customs value of the good plus freight costs and duties
- ▶ Customs duties of between 0% and 10% (this varies by type of product and country of origin - see Table 8).
- ▶ Various customs processes and associated fees.

The National Retail Association (2011) estimates that the price differential caused by the low value threshold is at least 11% and up to 23% (such as for clothing purchases).

Table 8: Rates of customs duties levied on selected imports

Goods	Duty rate on the value of the item
Books and magazines	-
Cameras and camera accessories	-
CDs and DVDs	-
Bicycle parts	-
Puzzles	5%*
Electric trains and scale model kits	-
Construction sets	5%
Toy musical instruments	-
Bicycle frames and forks	5%*
CD players	5%*
Footwear	5%*
Clothing	10%*

Source: Productivity Commission (2011)

* denotes no duties payable for imports from countries where applicable free trade agreements exist.

Duties on clothing to reduce to 5% from July 2015.

4.2 Arrangements in other countries

Australia has one of the most generous low value thresholds for value added tax and duty exemptions:

- ▶ Canada's threshold is set at CAN\$20
- ▶ UK's threshold is set at £15 for VAT and £135 for customs duty
- ▶ USA's threshold is set at US\$200
- ▶ South Korea's threshold is set at W150,000 (~ A\$130)
- ▶ New Zealand's threshold is variable depending on the product type. It can range between NZ\$220 and NZ\$400.

The UK recently reduced its LVT from £18 to £15 in November 2011, and plans to abolish it on all goods imported after 1 April 2012. These reforms were in response to unfair competition from overseas retailers, as well as retailers deliberately moving their operations to supply goods from outside the EU to UK consumers.

4.3 Number of low value consignments

The total value of low value consignments entering Australia is not known. The CIE (2011) estimates there to be 44 million consignments with a value of \$1.7b during 2009-10 that are below the threshold. This comprises:

- ▶ 8 million air cargo consignments valued at \$874.1m, with an average value of \$109 per consignment
- ▶ 36 million mail consignments valued at \$869.3m, with an average value of \$24.1 per consignment
- ▶ 47,400 sea cargo consignments with a value of \$5.2m (average value of \$109 per consignment).

While the value of air cargo consignments is relatively reliable (i.e., based on a sample of air cargo businesses), less so is the value of the 36 million consignments moved through mail. There is no actual record of the value of these items. This has been recognised by the CIE as a key data gap (CIE, 2011 p.10). They assume a very low average value for these mail consignments, with the reasoning being that these are likely to include many parcels with no retail value (such as documents, photos etc.).

The NRA (2011b) noted that if the average value of air parcel consignments were applied across mail consignments, the value of low value goods entering Australia could be much higher at \$3.6b in 2009-10. This higher value is closer to the estimated total value of purchases made by Australians with foreign retailers (discussed later).

4.4 Type of low value consignments

CIE (2011) analysis of a sample of low value consignments reveal that clothing (41%) and electronic goods (19%) are the most common low value items imported by individuals. Businesses also import low value textiles and fashion items and electronic goods (15% and 21% of low value business consignments respectively). These items aligned with those retail segments most exposed to online competition.

In total, around 60% of the value of low value consignments is destined to individual households while the remaining 40% is destined to businesses.

Table 9: Low value imports by product category (%)

	Individuals	Bus.	Total
Textile and fashion	41	15	26
Electronic and related	19	21	20
CDs and DVDs	1	1	1
Software	1	0	0
Sporting goods	7	2	4
Cosmetics and cleaning	1	0	0
Mechanical parts	4	9	7
Books, magazines, newspapers & related	1	2	2
Medical suppliers	0	3	2
Educational goods	0	0	0
Wine (liquor)	0	0	0
Food	2	1	1
Other	23	45	36
Total	100	100	100

Source: CIE (2011) based on a random sample of 2000 air cargo consignments each for business and individuals. "Other" includes multiple products in the consignment and products outside of the definitions uses.

4.5 Implications for Australian domestic retail

As discussed, the growth of online retailing is having an adverse impact on traditional retailing. Some of this impact is driven by the operation of LVT.

In particular, tax exemptions on low value imports make purchases with overseas retailers more attractive compared to the same item sold by domestic retailers where taxes are levied. This regime is having adverse impacts on both traditional and online Australian retail businesses.

It should be noted that there are a number of factors that contribute to price differentials between Australian retail prices (both traditional and online), and those offered by some foreign online retailers. While GST and duty exemptions account for some of the price differentials, they are also driven by factors such as differential labour and retail rental costs, as well as economy of scale advantages that large overseas retailers may accrue and which Australian based retailers are unable to replicate, given the size of the domestic market. Additionally, and as noted earlier, consumers shop online for a number of factors such as variety, which foreign online retailers may be better placed to offer.

Notwithstanding, the current tax regime is having an impact on the development of the domestic online retail sector .

Currently, the online retail sector is still emerging and there are no major “pure play” online retailers operating in Australia. Possible effects of this inequitable tax regime on the development of the domestic online retail sector going forward could include:

- ▶ **Greater share of Australian online retail captured by foreign retailers** - currently best estimates suggest that around a half of

non-food online retail is currently with domestic retailers and the rest with overseas retailers. The foreign share of online retailing is much greater in discretionary retail segments such as sporting and outdoor goods (90%), books (over 80%) and fashion (73%). With the future growth of online retail, Australian online retailers may continue to lose market share to foreign rivals due to this cost disadvantage. The total non-food foreign online market share is projected to be over 80% by 2021.

- ▶ **Reduced incentives for investments in Australian online retail** - Online retail is an evolving sector and continued investments are required to keep up with emerging trends (such as payment systems, mobile technology, brand building and customer interfaces). However, lower demand and scale in Australian online retail due to the tax regime may result in underinvestment from existing players or foregone new investment from entrepreneurs that would have otherwise entered the market in the absence of these tax disadvantages.

Preferential tax exemptions ultimately create price distortions favouring one segment of the market. Consumers would choose foreign online retailers over domestic online retailers, resulting in suboptimal consumption of goods and services provided by Australian online retail businesses. This in turn leads to inefficient patterns of production in Australian retail (the domestic online sector not investing in growth for example, or investing offshore to bypass local taxes).

There is a risk that Australian retailing will fall behind as a result of these barriers that thwart online retail investment.

5. Scenarios analysis

This section presents a number of scenarios for the Australian retail industry up to 2020-21. These include:

- ▶ The base case
- ▶ A scenario with the removal of the low value threshold that currently exempts foreign purchases from GST and duties.

While it may not be practical to remove the threshold completely, this scenario is presented to provide an upper bound estimate of the impacts on the retail sector. Lowering the threshold is likely to result in much smaller impact than the full removal, as most online transactions (around 90%) are below \$100. Therefore, other lower threshold scenarios were not assessed, and they were outside the scope of the analysis.

Given the uncertainties and paucity of data around how the industry would react under this scenario, a number of assumptions based on our literature review are adopted. These are documented (see Appendix A). Detailed year on year modelling results are provided in Appendix B.

5.1 The base case

The base case represents the likely growth and structure of the Australian retail sector assuming a do nothing scenario. Our base growth rates for each retail segment were based on average growth rates over the last 5 years (as per ABS statistics).³ This results in an

³ We note that retail growth over the past 3 years was lower: this may be due to a range of reasons (such as the global financial crisis, or shifts in consumption behaviour away from retail to other sectors). As these economic shocks are unlikely to continue in the longer run, the 5 year growth was adopted. Notwithstanding, a lower growth rate (reducing the growth rate by 0.5%) was tested in a sensitivity analysis. This had minor impacts on the overall results.

average growth of around 5% p.a. over the forecast period (or 6.2% for food sectors and 3.5% for non-food sectors). Australian retail sales are projected to grow from \$255b in 2011 to \$309b in 2015, and \$415b by 2021.

Table 10: Australian retail spend - base case turnover (\$b)

	FY 2011	FY 2015	FY 2021
Food	98.4	124.3	176.4
Cafes & takeaway	32.0	41.5	61.1
Furniture	11.7	13.4	16.5
Electrical & electronics	20.2	23.1	28.3
Hardware	13.4	14.5	16.2
Clothing & footwear	20.5	23.6	29.0
Dept. Stores	19.8	21.5	24.3
Newspapers & books	7.8	8.5	9.7
Other recreational	4.8	5.4	6.6
Pharma and cosmetics	14.0	18.7	28.9
Other	12.4	14.4	18.0
Total	255.2	308.9	415.0
Traditional domestic retail	242.7	279.6	368.9
Total online	12.5	29.4	46.1
Domestic Online	7.1	11.2	16.3
Foreign Online	5.3	18.2	29.8
Total	255.2	308.9	415.0
Share of total			
Traditional domestic retail	95.1%	90.5%	88.9%
Total online	4.9%	9.5%	11.1%
Domestic Online	2.8%	3.6%	3.9%
Foreign Online	2.1%	5.9%	7.2%

Source: Ernst & Young projections. Refer to Appendix A for detailed assumptions. Please note that all dollar amounts are nominal.

In 2011, online sales are estimated to represent 4.9% of all retail turnover, increasing to 9.5% by 2015. Online retail is forecast to grow by 23.9% pa to \$29.3b overall to 2015.

After 2015, online penetration rates were assumed to increase, but at a slower pace (at half the pace between 2011 and 2015.). On this basis, online retail is forecast to grow to \$46.1b by 2021 (or 11.1% of total retail).

The share of total retail spend accruing to online spending is substantially larger when food retailing is excluded, growing from 8.5% of total retail in 2011 to 20.7% by 2021.

Of total online turnover in 2011, 57.4% is to domestic providers while 42.6% to foreign providers. Looking ahead, the share of foreign online (non-food) sales as a proportion of total online turnover is assumed to grow:

- ▶ Between 2011 and 2015, domestic market share is assumed to halve. Customs data (NRA, 2011) supports this projection, with the volume of air cargo parcels growing at 42%, compared to online growth rates of around 21%. This suggests that imports are growing faster than the overall online market.
- ▶ After 2015, the foreign market shares are assumed to increase but at half the rate (up to a maximum of 90% of online sales for any market category).

On this basis, domestic online market share will fall to 35%, while the foreign online market share will increase to 65 % by 2021. The majority of the domestic online retailing will be in the food sectors by 2021.

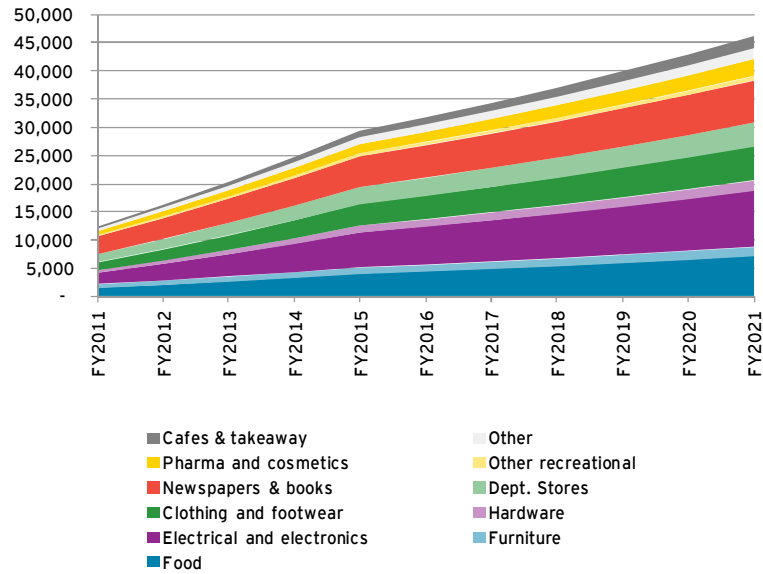
We note that this is a sensitive assumption and sensitivity analysis was conducted using alternative assumptions.

Table 11: Online retail spend - base case turnover (\$m)

	FY 2011	FY 2015	FY 2021
Domestic			
Food	1,797	5,116	9,354
Non-food	5,352	6,080	6,955
Sub-total	7,149	11,196	16,309
Foreign			
Food	0	0	0
Non-food	5,304	18,154	29,802
Sub total	5,304	18,154	29,802
Total online	12,453	29,350	46,111
Share of total retail			
Food	1.4%	3.1%	3.9%
Non-food	8.5%	16.9%	20.7%
All	4.9%	9.5%	11.1%
Share of total online			
Domestic	57%	38%	35%
Foreign	43%	62%	65%

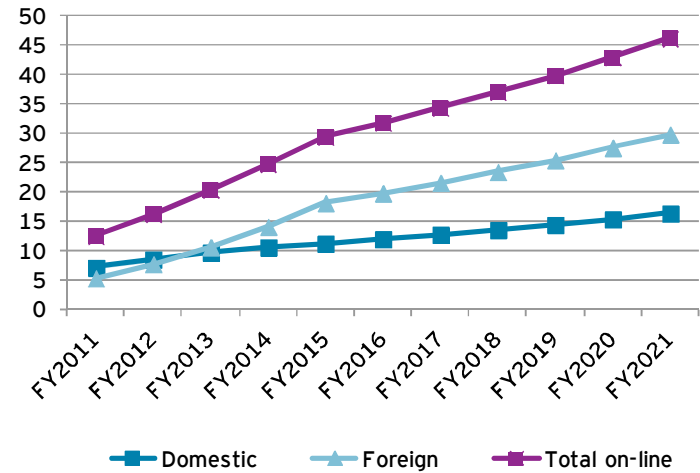
Source: Ernst & Young projections. Refer to Appendix A for detailed assumptions

Figure 12: Online retail growth - base case (\$m)



Source: Ernst & Young projections. Please refer to Appendix A for detailed assumptions. After 2015, it is assumed that online retail matures and grows at a lower rate.

Figure 13: Online retail turnover by origin of retailer - base case (\$b)



Source: Ernst & Young projections. Please refer to Appendix A for detailed assumptions.

5.2 Scenario: removing the threshold

The impact of removing the low value import threshold on purchases of goods sold by Australian retailers is not known and difficult to determine. We consider the literature around the price differential and switching impacts first, and then present the assumptions used to model the impacts.

Price differential

The price differential caused by the low value threshold on foreign items depends on the type and origin of the goods imported. NRA (2011) submits that this differential equates to between 11% (electronics) to 23% (clothing) of the sale price.

The CIE (2011) estimates that on average, the price impact associated with the removal of the LVT lies between 13% and 15%.

For this study, a price differential of 14% is assumed.

Switching impact

All other things being equal, removing this price differential enjoyed by low value imports will:

- ▶ reduce demand for these imports (the extent of which is measured by the own price elasticity)
- ▶ increase demand for domestic substitutes (the extent of which is measured by the cross price elasticity).

Studies presented in Table 12 show a wide range of estimates for both own price and cross price elasticities for online retail ranging from -1.45 to -33. These studies **isolate the price effect from other effects** on demand. That is, they look at the impact of price, holding other variables constant. However, the application of some of these estimates to the Australian setting is limited as they are based on the US situation, and limited to selected products.

Table 12: Studies of the price elasticity and switching in online retail

Study	Study summary and findings
Goolsbee (2000)	estimates the relative price sensitivity of buying computers online versus in retail stores in the USA. The study estimated a cross price elasticity of between, -1.45 - 1.55.
Chevalier and Goolsbee (2003)	Estimated the own and cross price elasticities of demand facing two large online book merchants in the USA. Results show significant price sensitivity at both merchants but demand at Barnes and Noble is much more price-elastic than is demand at Amazon (possibly due to its brand and it is 3 to 10 times larger than BN.com). The study found that one percent increase in the price at Amazon reduces quantity by about 0.5% at Amazon but raises quantity at BN.com by 3.5%.
Ellison and Ellison (2006)	Examined online and offline retail demand for computer chips. Study found substantial substitution between online and offline retail, and tax avoidance may be an important contributor to e-retail activity. In particular, online sales are higher in states that levy higher sales taxes on traditional retail purchases. A large own-price elasticity of -33 was found.
Brynjolsson, Dick and Smith (2009)	Examined the impact of internet shopbots, which allow consumers to almost instantly compare prices and other characteristics from dozens of sellers via a single website. It found that price elasticities are relatively high compared to offline retail markets (between -7 and -10).
Ellison and Ellison (2009)	This study of computer chips found that the easy price search of online price search engines has made demand tremendously price sensitive. The study found that a firm faces a demand elasticity of -20 or more for its lowest quality memory modules.
CIE (2011)	The CIE examined the change in the volume of low value international parcels with the changes in the exchange rate (as a proxy for price movements). On this basis, found a price elasticity of -1.

The switching impact is likely to be significant for online businesses. The rationale for this assessment is that:

- ▶ Domestic online retailing is a near perfect substitute for foreign online retail. Price differences do matter in the choice of online retailer. Research conducted by Getprice (2011) supports this view, with 72% of respondents indicating that they use price comparison websites when making online purchases. Consumers first have a product and brand in mind, and then search for the retailer that can supply the product at the lowest cost. A discriminatory GST and customs impost applied to domestic online retailers (and not foreign retailers of the same product) will represent a significant cost disadvantage to domestic businesses.
- ▶ Traditional and online retail shopping are not perfect substitutes. While lower price motivates online shopping, it is not the only reason. People also enjoy the convenience and variety offered through online retailing (see section 3.4). Customers are expected to continue to shop through traditional channels when their demand is time dependent. Notwithstanding this, there are still impacts on the traditional sector. In particular, surveys undertaken by the NRA (2012) found that 80% of retailers import more than 90% of their product, which implies that these domestic retailers are selling the same product as online retailers. Domestic retailers are disadvantaged as they pay GST, duty and customs fees while foreign retailers of an identical product do not.
- ▶ Even if the tax and duty advantages to foreign retailers were removed, traditional retailers would still face cost competition from online operators. Online operators have lower labour and rental costs. Foreign online retailers also have natural cost advantages due to their size and volume, which has been exacerbated in recent times by the relatively high value of the Australian dollar.

Assumptions adopted in the modelling

Given the uncertainties around the impact of removing the price differential by abolishing the low value threshold, Ernst & Young presents a range of results based on two scenarios:

- ▶ *High impact on demand for foreign imports* - the CIE (2011) study assumed a price elasticity of -1. CIE estimated that the GST foregone from foreign imports would reduce from \$365m to \$89m if the low value threshold was removed (i.e., due to this price effect). This implies that the value of foreign imports would reduce by around **70%** with the removal of the LVT and with a price elasticity of -1. That is, a 14% price rise would reduce demand for imports by 70%.
- ▶ *Medium impact on demand for foreign imports* - this is based on the mid-point between a 14% and 70% reduction in demand from a 14% price rise. That is, a 14% price rise would reduce demand for imports by 42%.

A cross-price effect is assumed whereby **95%** of the reduction in foreign demand is switched back to domestic (traditional and online) retailers. This less-than-total switch back accounts for lower demand caused by higher prices (that is, from needing to pay tax).

With people switching away from foreign online retail, this will benefit traditional and online retailers in Australia. While the extent of substitution back to these channels is not known. As described earlier it is likely that most benefit would accrue to online retailers. Accordingly, it is assumed that **80%** of the switch away from foreign online retailers will go to domestic online retailers while the remaining **20%** will go to traditional retailers.

Thus, the removal of the low value threshold will see a 42% to 70% reduction in base case sales to foreign retailers by 2021 (or between \$12.5b and \$20.8b). A corresponding increase in turnover of between \$9.5b and \$15.8b to the domestic online sector, and \$2.3b and \$3.9b to the traditional retail sector is projected.

Table 13: Change in retail turnover from the removal of the low value threshold (\$m)

	Medium Scenario		High Scenario	
	FY 2015	FY 2021	FY 2015	FY 2021
<i>Base turnover (\$m)</i>				
Traditional retail	279,598	368,898	279,598	368,898
Domestic Online	11,196	16,309	11,196	16,309
Foreign Online	18,154	29,802	18,154	29,802
Total	308,948	415,009	308,948	415,009
<i>Change in turnover under scenario</i>				
Traditional retail	1,449	2,378	2,414	3,964
Domestic Online	5,795	9,513	9,657	15,854
Foreign Online	-7,625	-12,517	-12,707	-20,861
Total	-381	-626	-635	-1,043
<i>Base online share of total retail</i>				
Base online share of total retail	9.5%	11.1%	9.5%	11.1%
<i>Scenario online share of total retail</i>				
Scenario online share of total retail	8.9%	10.4%	8.5%	9.9%

Source: Ernst & Young projections, Changes relative to base case

Figure 14: Base case and medium scenario domestic online turnover (\$b)

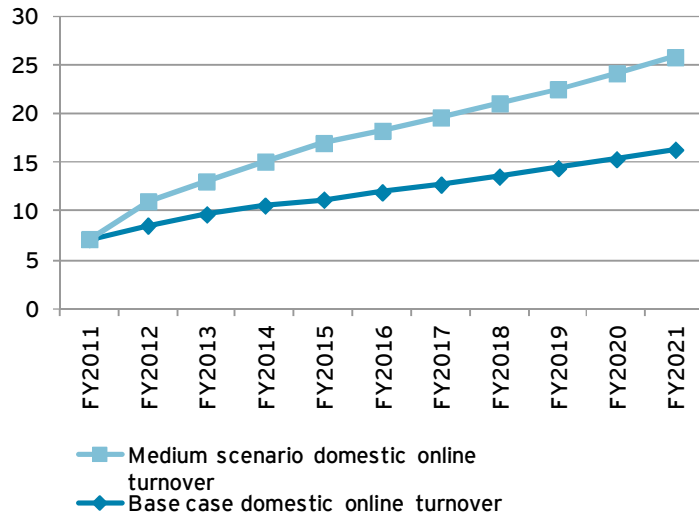
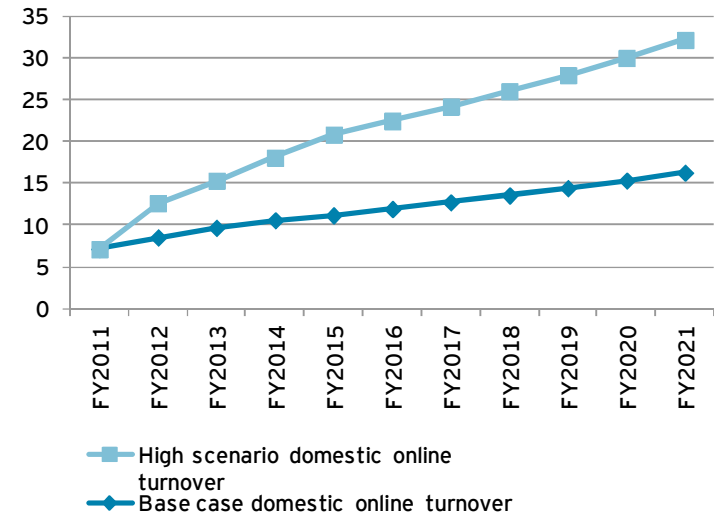


Figure 15: Base case and high scenario domestic online turnover (b)



5.3 Sensitivity analysis

Sensitivity analysis was conducted by applying alternative values to the more sensitive assumptions in the analysis:

- ▶ *Sensitivity Analysis 1* - The base case domestic online share for each retail segment is assumed to fall over time. In this sensitivity analysis, the domestic market shares in the non-food segments are assumed to remain constant at 57% in the base case (that is, domestic online retailers will maintain market share despite the presence of the LVT).
- ▶ *Sensitivity Analysis 2* - The analysis assumes that the removal of the 14% price differential between foreign and domestic will cause a 42% to 70% decline in foreign online sales (and substitution towards the domestic sector). An alternative low price sensitivity assumption of a 14% reduction in sales is tested.
- ▶ *Sensitivity Analysis 3* - The analysis assumes retail to grow in accordance with the 5 years trend. This analysis adopts a lower growth rate by reducing overall per annum growth in each segment by 0.5%
- ▶ *Sensitivity Analysis 4* - The analysis assumes that 80% of the substitution away from foreign retailers will accrue to domestic online retailers, and the remaining 20% to traditional retailers. Alternative assumptions of 60:40 are tested (weaker online switching).

The range of results from the sensitivity analysis is presented in Table 14. Key sensitivities in the analysis were found to be the switching rate (Sensitivity 2), and the extent to which domestic providers can maintain market share with the LVT in the base case (Sensitivity 1).

Table 14: Sensitivity analysis: Change in retail turnover (\$m)

	Medium Scenario FY 2015	Sensitivity Result FY 2015	Difference
<i>Sensitivity 1 - Constant Domestic Online market share over time</i>			
Traditional retail	1,449	963	-485
Domestic online	5,795	3,854	-1,941
Foreign online	-7,625	-5,071	2,554
Total	-381	-254	128
<i>Sensitivity 2 - Lower Switching (14% switch)</i>			
Traditional retail	1,449	478	-971
Domestic online	5,795	1,912	-3,882
Foreign online	-7,625	-2,516	5,109
Total	-381	-126	255
<i>Sensitivity 3- Lower overall retail growth (0.5% lower retail growth)</i>			
Traditional retail	1,449	1,421	-28
Domestic online	5,795	5,683	-111
Foreign online	-7,625	-7,478	147
Total	-381	-374	7
<i>Sensitivity 4 - 60:40 split of switch to traditional and online.</i>			
Traditional retail	1,449	2,897	1,449
Domestic online	5,795	4,346	-1,449
Foreign online	-7,625	-7,625	0
Total	-381	-381	0

Source: Ernst & Young. Change relative to the base case.

6. Economic impact on the retail sector

6.1 Overview

This section examines the direct employment and industry value add impacts to the Australian retail sector by *removing* the low value threshold. A sales ratio approach is used to quantify this change. That is, a direct relationship between sales and employment is assumed.

Wider economic impacts such as the impact on total employment and gross domestic product are then quantified using a *hybrid* input-output approach.

Input output models have limitations as they do not consider capacity constraints in the economy such as full employment. Such constraints limit the extent to which economic impacts can increase in a linear fashion with changes in demand.

The alternative Computable General Equilibrium (CGE) approach addresses some of these issues. These complex models are based on theoretical concepts and account for profit maximisation, household consumption functions, terms of trade effects, labour market adjustments etc. These models take into account changes in prices and wages with increases in demand. Economic impact predictions from CGE models are generally more conservative than input-output models. For this reason, Ernst & Young adopts a hybrid approach by

For this reason, Ernst & Young adopts a hybrid approach by commissioning a set of multipliers based on the outputs of a CGE model developed by the Centre of Policy Studies (Monash University). These multipliers were obtained by “shocking” the industries in this CGE model (i.e., increasing demand by \$1 million) and observing the ultimate impacts on GDP and wages. Multipliers

were produced by state and by industry using the MMRF model. Compared with the ABS multipliers, the Monash multipliers are inherently *more conservative*.

6.2 Cost structures of traditional and online retailing

The cost structure of online retailing compared with traditional retailing is significantly different, from the composition of costs to the absolute or overall costs incurred in selling.

The online retail sector is typified by high levels of competition, driven by large numbers of new businesses entering the market and the rapid expansion of the range of products available online. Online retailers face substantial sunk costs in establishing websites prior to market entry, and the long lead times (up to four years) before an operating business becomes profitable (IBISWorld, 2011).

As Table 15 presents, major differences include:

- ▶ *depreciation* - due to higher start up costs, online retailers tend to have larger amounts of depreciation
- ▶ *wages* - wages tend to be a higher proportion of overall costs, as the online industry include a large number of small businesses
- ▶ *purchases* - online retailers have more flexibility around goods kept in stock, and would only need to purchase products as a result of revenue growth.

Table 15: Cost compositions: online vs traditional retailers

Type of cost	Online retailer	Traditional retailer
Profit	8.1%	4.5%
Rent & utilities	0.6%	3.7%
Utilities	1.5%	0.9%
Depreciation	9.3%	1.1%
Other	11.6%	8.4%
Wages	12.1%	10.7%
Purchases	56.8%	70.6%

Source: IBISWorld (2011)

6.3 Employment intensity in Australian retail

A range of data exists that considers sales revenue per employee. While employment ratios for traditional retail are well established and based on historical data, less so are ratios for online retailing.

The evidence from overseas suggests that online retailers experience much higher labour productivity than traditional retailers. At present, Australian labour productivity in online is moderately higher than traditional retail, although this may increase further as Australian online retailers grow, consolidate and mature.

These are discussed below.

6.3.1 Traditional retail employment ratios

The sales per employee ratio for Australian retail average is around \$274,405 per worker. This number is skewed by the inclusion of fuel retailing and motor vehicle retailing.

For the purposes of this study, the employment ratio for “other store based retailing” of \$207,013 is adopted for traditional retail sectors. This sales-to-employee ratio is assumed to grow at 3.3% pa to take

account of the productivity growth of the workforce (as reflected by the historical increase in labour costs in the retail sector over the past 10 years, as per ABS (2011c).

Table 16: Employment and value added in Australian traditional retailing (2009-10)

	Turnover (\$m)	Industry value added (\$m)	Employees	\$ per employee
Motor vehicle and motor vehicle parts retailing	\$71,493	\$9,066	103,000	\$694,107
Fuel retailing	\$36,724	\$2,688	37,000	\$989,811
Food retailing	\$100,603	\$18,562	434,000	\$230,083
Other store based retailing	\$145,551	\$32,337	695,000	\$207,013
Non-store retailing and retail commission based buying and or selling	\$3,842	\$988	22,000	\$172,545
Total	\$358,214	\$63,641	1,290,000	\$275,405

Source: ABS (2011b) 8155.0 - Australian Industry, 2009-10.

6.3.2 Online retail employment ratios

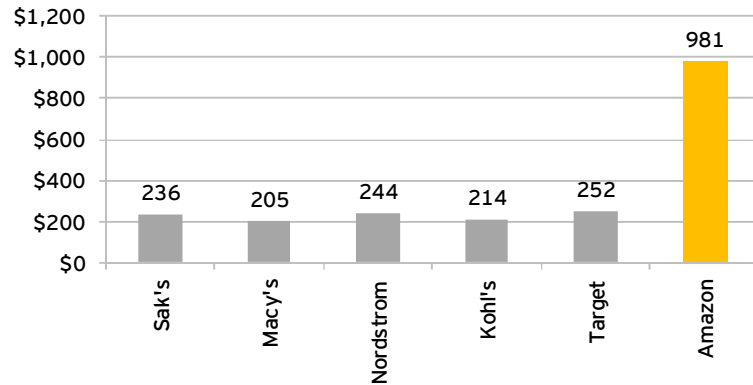
It is difficult to gauge the true extent of online employment due to the emerging nature of this sector in Australia. Unlike the US, there is no “pure play” online retailer in Australia. Most large online businesses are part of established traditional businesses (such as Woolworths, Myer and Dick Smith.)

Figure 16 shows the sales per employee for several listed US retailers, including Amazon. Labour productivity for this advanced, mature internet business is much higher than traditional retailers - of a magnitude of 3 to 4 times that of a traditional retailer.

That said, it is unlikely that this large labour productivity differential holds for most online retailers. Additionally, all of the traditional retailers below also have an online market presence, although the vast bulk of sales are generated through traditional “shop front” means.

In Australia, where online retailing is at a more embryonic stage, the relative differences in labour productivity are much less. On average, IBISWorld estimates sales revenues to employee to be \$361,089. Over time, however, sales revenue per employee for online retailers is expected to grow.

Figure 16: Sales (A\$'000) per employee) (traditional compared to Amazon)



Source: Morgan Stanley (2011)

Table 17: Employment and value added in Australian online retailing (2010-11)

	Turnover (\$m)	Industry value added (\$m)	Employees	Turnover \$ per employee
Total	\$5,078	\$1,519	14,063	\$361,089

Source: IBISWorld (2011)

6.4 Change in retail jobs

An estimate of the change in retail jobs is performed by applying the traditional and online employment ratios to the estimated change in retail turnover caused by removing the low value threshold. To take account of labour productivity, the revenue-to-employee ratios are assumed to grow a 3.3% p.a.

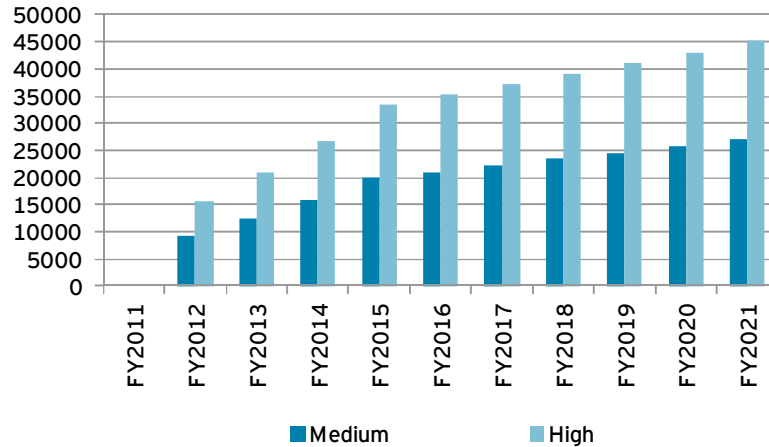
Employment in the retail sector is estimated to increase by between 27,079 and 45,130 positions relative to the base case by 2021, of which between 8,038 and 13,396 would go to the traditional sector and between 19,041 and 31,734 to the domestic online sector.

Table 18: Change in retail employment from the removal of low value threshold (\$m)

	Medium Scenario		High Scenario	
	FY 2015	FY 2021	FY 2015	FY 2021
<i>Base turnover (\$m)</i>				
Traditional retail	279,598	368,898	279,598	368,898
Domestic Online	11,196	16,309	11,196	16,309
Foreign Online	18,154	29,802	18,154	29,802
Total	308,948	415,009	308,948	415,009
<i>Change in turnover with LVT removal (\$m)</i>				
Traditional retail	1,449	2,378	2,414	3,964
Domestic Online	5,795	9,513	9,657	15,854
Total	7,243	11,891	12,072	19,818
<i>Change in employment (FTE)</i>				
Traditional retail	5,949	8,038	9,915	13,396
Domestic Online	14,093	19,041	23,488	31,734
Total	20,043	27,079	33,403	45,130

Source: Ernst & Young, Changes relative to base case

Figure 17: Change in retail employment (relative to base case)



Source: Ernst & Young projections

6.5 Summary of direct retail job impacts

Table 19 summarises the impact of online retail growth on the traditional retail sector for the medium and high scenarios.

If the LVT continues to operate, around 118,700 traditional retail jobs would be displaced in 2015. Of this amount, 27,230 would be transferred back to the domestic online sector while around 44,150 jobs would flow to overseas online retailers. There would be around 47,300 jobs that would disappear due to the structural affect of the online retail industry (i.e., the lower employee to sales ratio of this segment).

With the LVT removed, there would be less spending on overseas online retailers. By 2015, this is projected to result in between 20,000 and 33,400 additional jobs accruing to the domestic online and traditional retail sectors.

Table 19: Retail job impacts as a result of online retail growth, 2015

	Traditional jobs transferred to domestic online	Traditional jobs transferred to overseas online	Jobs lost to structural change	Total jobs lost in traditional retail due to online retail
Medium scenario				
<i>With LVT</i>				
Food	12,443	-	6,712	19,155
Non-food	14,787	44,152	40,584	99,523
Total	27,230	44,152	47,295	118,678
<i>Without LVT</i>				
Food	12,443	-	6,712	19,155
Non-food	28,881	25,608	39,085	93,574
Total	41,324	25,608	45,796	112,729
Difference	14,093	-18,544	-1,499	-5,949
High scenario				
<i>With LVT</i>				
Food	12,443	-	6,712	19,155
Non-food	14,787	44,152	40,584	99,523
Total	27,230	44,152	47,295	118,678
<i>Without LVT</i>				
Food	12,443	-	6,712	19,155
Non-food	38,275	13,247	38,086	89,608
Total	50,718	13,247	44,797	108,763
Difference	23,488	-30,905	-2,498	-9,915

6.6 Change in retail industry value added

Industry value added (IVA) provides a better indication of the impact on the retail sector as most of turnover is used to pay for inputs (such as imports of wholesale items).

The data presented above also suggest that:

- ▶ 22.2% of turnover on “other store based retailing” represents value add to this sector.
- ▶ 29.9% of turnover on “online businesses” represents value add to this sector

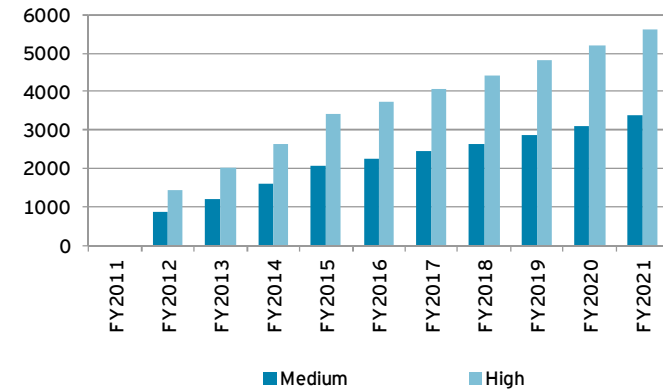
The change in value add to the retail sector is estimated by multiplying these ratios to changes in traditional and domestic online retail sales. Accordingly, industry value add is estimated to increase by between \$3.4b and \$5.6b in 2021 with the removal of the low value threshold.

Table 20: Change in retail industry value add from the removal of low value threshold (\$m)

	Medium Scenario		High Scenario	
	FY 2015	FY 2021	FY 2015	FY 2021
<i>Change in turnover with LVT removal (\$m)</i>				
Traditional retail	1,449	2,378	2,414	3,964
Domestic Online	5,795	9,513	9,657	15,854
Total	7,243	11,891	12,072	19,818
<i>Change in IVA (\$m)</i>				
Traditional retail	322	528	536	880
Domestic Online	1,733	2,844	2,888	4,740
Total	2,054	3,372	3,424	5,620

Source: Ernst & Young, Changes relative to base case

Figure 18: Change in retail industry value added (\$m)



Source: Ernst & Young projections

6.7 Wider economic impacts

A shift towards Australian retail will create greater employment impacts beyond the retail industry by virtue of the downstream flow on effects to the industries dependent on the retail sector.

To model this wider impact, national multipliers for the retail industry generated from the Monash MMRF CGE model were obtained. They are as follows:

- ▶ \$450,000 change in overall wages for every \$1m increase in final demand for the retail sector.⁴ Wider employment is then projected by dividing the change in wages by the average national wage per FTE of \$67,880. Wages are assumed to grow at 3.3% to take account of productivity growth
- ▶ \$540,000 change in Australian GDP for every \$1m increase in final demand for the retail sector.

These multipliers were applied to domestic retail turnover changes to estimate wider economic impacts to the Australian economy.

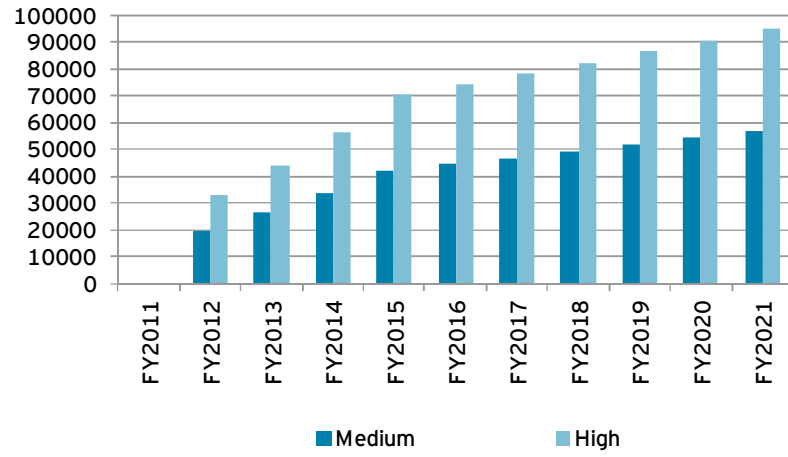
Total employment in Australia is estimated to increase by between 42,171 and 70,282 FTEs in 2015 and between 56,976 and 94,956 FTEs by 2021 with the removal of the low value threshold.

GDP would increase by between \$3.9b and \$6.5b in 2015 and \$6.4b and \$10.7b in 2021 with the removal of the low value threshold.

While conservative multipliers were used in this analysis, it should be stressed that they represent upper bound estimates as an unconstrained economy is assumed. Notwithstanding, input-output analysis provide an indicative representation of economy wide impacts for relatively small changes to the economy.

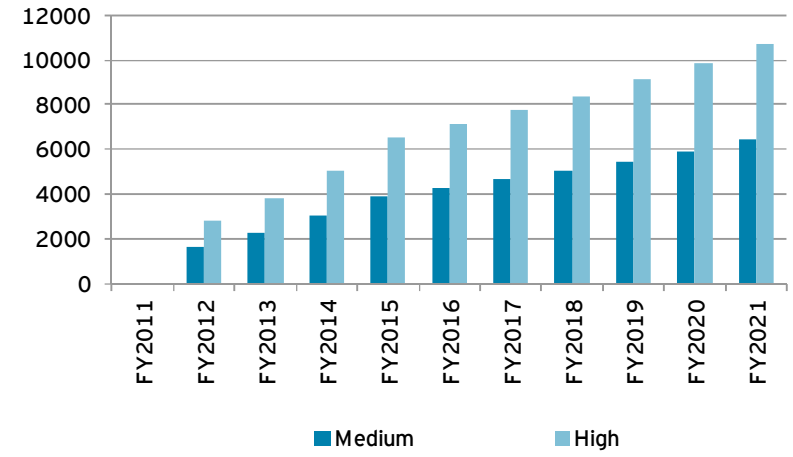
⁴ Average full-time earning in 2010-11 was \$67,880 in Australia (ordinary weekly earning multiplied by 52 weeks). ABS (2011d)

Figure 19: Change in total Australian employment (FTE) relative to base case



Source: Ernst & Young projections

Figure 20: Change in Australian GDP (\$m) relative to base case



Source: Ernst & Young projections

7. Other costs and benefits

The Productivity Commission (2011) noted that there are strong in-principle grounds for the LVT to be lowered significantly. However, it also noted that the Government should not proceed to lower the LVT unless it can be demonstrated that it is cost effective to do so.

In addition to the benefits that would stem with an increase in economic activity (including the GDP and wider employment impacts identified in the previous chapters), the removal of the LVT will also generate other costs and benefits.

This section discusses the potential benefits and costs that need to be taken into account when considering the removal of the LVT.

7.1 Potential costs

Removing the low value threshold would increase the administrative costs incurred by customs, and compliance costs incurred by freight/parcel handling organisations (by declaring and processing more parcels for GST and duty purposes).

This creates productivity costs (such as processing delays) for businesses as goods are held up at Customs. There is a lack of complete data regarding the extent of this impact.

The CIE (2011) estimated the additional administrative costs to be around \$1b, while the Productivity Commission's (2011) upper bound estimate for collection costs is at \$1.6b.⁵

There are a number of limitations to these estimates. In particular, costs were based on existing practices and volumes. The impacts of

⁵ See Table H.1 in Appendix H of the Productivity Commission's (2011) Inquiry for a \$0 threshold.

technological advances in processing methods were also not considered. These include:

- ▶ Greater innovation in mail and parcel processing technologies, reducing overall costs
- ▶ Scale economies - as more parcels are processed, this reduces average cost per parcel.

These technological changes would reduce the overall burden on government agencies and businesses.

The fact that most other countries (including smaller countries such as New Zealand) are able to administer a much lower threshold provides a strong indication that the overall additional administrative and freight handling costs are unlikely to be a significant problem.

7.2 Potential benefits

7.2.1 Benefits arising from a more efficient source of revenue

The removal of the low value threshold on imports would increase GST and duties revenues to the Australian Government:

- ▶ Foreign purchases under the \$1,000 threshold would no longer be exempt from GST and duties
- ▶ Consumers would switch from foreign retailers to domestic retailers who are subject to the GST.

Based on the analysis in Chapter 2, Australians made around \$6.5b in foreign online purchases in 2011. This is projected to grow to \$14.8b by 2015.

To indicatively estimate the revenues foregone (or GST/duties to be collected with the removal of the low value threshold), the following assumptions were employed:

- ▶ 95% of the value of foreign online purchases is assumed to be below the \$1000 low value threshold (c.f. Table 4)
- ▶ As per CIE (2011), 3% of these low value imports are products that would be exempt from GST.
- ▶ 40% of items are destined for businesses. As business inputs would eventually be subject to GST (through the final sale of goods and services), they are excluded from the value of imports subject to additional GST
- ▶ A GST of 10% and an average customs value of 4% (based on the midpoint of between 3% and 5% as noted by CIE, 2011) is applied to the applicable value of imports to approximate GST and customs duties.

Based on these assumptions, the value of GST and duties forgone in 2011 is around \$0.4b in 2011 (see Table 21). This is projected to increase to \$2.4b by 2021 with the increased take up of foreign online retail.

For comparative purposes, we note that the Commonwealth Treasury's (2011) estimate of the GST forgone in 2010/11 is \$470 million, increasing to \$830 million by 2014-15. The Commonwealth Treasury noted the reliability of this estimate as being low.

This additional revenue does not itself represent a net benefit to the community. Rather, it is a transfer payment from consumers to the Government.

However, the community would derive a net benefit to the extent that removing or lowering the GST threshold would reduce the amount of revenue that would have to be raised using what may be less efficient tax regimes (e.g. the income tax regime, as well as State and Territory tax regimes). That is, it would reduce the deadweight costs that would otherwise arise from having to collect that additional revenue using less efficient forms of taxation.

In addition, as discussed further below, the community would also derive benefits to the extent that the elimination of the threshold reduces the extent to which the current threshold unintentionally distorts patterns of consumption, production, investment and resource use.

Table 21: Indicative estimate of GST and duties foregone (\$m)

	FY 2011	FY 2015	FY 2021
Foreign Online purchases	5,304	18,154	29,802
Low value items (@95%)	5,039	17,246	28,312
Less: exempt products and products destined to businesses	-1,955	-6,692	-10,985
Value of imports applicable for GST and duties	3,084	10,555	17,327
GST @ 10%	308	1,055	1,733
Duties @ 4%	123	422	693
Total taxes and duties foregone	431.8	1,477.7	2,425.8

Source: Ernst & Young projections.

7.2.2 Benefits arising from less distorted patterns of consumption

The key objective of the current threshold on imported goods and services is to improve the overall efficiency of the GST regime by

reducing the administrative and compliance costs associated with collecting tax on low value imports.

These administrative and compliance costs are part of the “deadweight costs” of taxation. In the course of raising revenue, the GST regime requires both the Government and businesses to divert resources away from more productive activities in order to administer, and comply with, that regime. This imposes a net cost on the community as a whole by encouraging a less efficient use of those resources.

In seeking to reduce administrative and compliance costs, however, such a threshold also imposes a deadweight cost on the community as a whole by distorting patterns of consumption.

In particular, such a threshold encourages the:

- ▶ Over-consumption of those types of goods and services that can be imported free of GST under the threshold
- ▶ Under-consumption of other substitutable goods and services that are subject to the GST (e.g. those that have been domestically produced, or those that have been imported in bulk by domestic retailers).

This encourages a less efficient pattern of consumption than would have prevailed in the absence of such a threshold or with a lower threshold. That is, in seeking to reduce one potential source of deadweight costs (i.e. administrative and compliance costs), such a threshold can create an additional deadweight cost (i.e. those arising from distorted patterns of consumption).

In general, the magnitude of these additional deadweight costs arising from the current threshold, and hence the potential benefits from eliminating or reducing that threshold, will be greater:

- ▶ The greater the total value of goods and services being imported under the threshold
- ▶ The greater the magnitude of the tax concession applied (i.e. the higher the rate of GST and the higher the rate of Customs duty that would otherwise apply to those goods and services)
- ▶ The greater the degree of substitutability in consumption between the goods and services entering the country under this threshold, and all other goods and services (e.g. domestically produced goods and services, as well as goods and services imported outside the threshold by Australian retailers).

7.2.3 Benefits arising from less distorted patterns of production, investment and resource use

In addition to imposing a cost on the community by distorting patterns of consumption, the current threshold also imposes a cost on the community by distorting patterns of production, investment and resource use.

It is important to note that the GST regime is an indirect consumption tax regime. That is, it seeks to tax the value added by all domestic producers and retailers at a rate of 10 percent and enable them to pass on the burden of that tax to consumers by taxing imported goods and services at the same rate.

By allowing goods and services valued under \$1,000 to enter free of GST, however, the threshold in effect reduces the extent to which the domestic producers and retailers can pass on the cost of the GST to Australian consumers. Rather, in order to be able to remain price competitive with GST-exempt overseas retailers, they will have to bear some, or all, of the cost of the GST themselves. That is, for these producers and retailers, the threshold turns the intended indirect tax on consumers into an unintended additional income tax on producers and retailers of those goods and services.

This imposes a net cost on the community by distorting patterns of production, investment and resource use. In particular, it imposes an additional income tax on the domestic producers and retailers of the types of goods and services entering under the threshold, thereby reducing their ability to compete against other businesses for the factors of production and other resource inputs they need.

In general, the magnitude of those additional deadweight costs are greater:

- ▶ The greater the value of the goods and services entering under the threshold that are domestically produced and sold by Australian retailers
- ▶ The greater the extent to which the threshold imposes an additional effective marginal rate of tax on domestic producers and retailers of the types of goods and services that are entering under the threshold. In general, the threshold will impose the highest additional effective marginal rates of tax on the domestic production and retailing of those goods and services that involve the smallest value added
- ▶ The greater the degree of substitutability in production between the goods and services that are imported under the threshold and all other goods and services that are subject to the GST.

7.3 Timing issues

With the emerging nature of online retail, the volume and value of online transactions, and those that fall below the low value threshold, will increase exponentially.

Policy makers will need to be forward looking when taken into account the impacts of continuing with the LVT, including:

- ▶ The growing value of retail expenditure diverted to overseas retailers, and the associated loss of GDP and employment
- ▶ The growing levels of GST not collected by the Australian Government on imports
- ▶ The future reduction in average parcel processing costs due to economies of scale and technological change.

It is probable that, in fact, the costs of removing the LVT are outweighed by the significant economic benefits and welfare gains of having a more competitive retail sector. In particular, by 2015, substantial levels of economic activity will occur if the LVT is removed (between \$3.9b and \$6.5b in GDP).

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Appendix A :Assumptions for base case modelling

Table 22: Base case assumptions

Item	Value	Basis
Base level Australian retail sales as of 2010-11	Based on actual ABS figures for each retail segment for 2010-11. Additional online turnover was added to this base number to capture online turnover not included in ABS official estimates. Additional online turnover estimated by dividing the retail turnover by Morgan Stanley's estimated online penetration rates (as of 2010-11) for Electrical and electronics, Hardware, Clothing and footwear, Dept. Stores, Newspapers & books, Other recreational, Pharma and cosmetics, and Other.	ABS (2011) and Morgan Stanley (2011).
Total retail sales annual growth rate to 2021.	Food - 6% Furniture - 3.4% Electrical and electronics - 3.4% Hardware - 1.9% Clothing and footwear -3.5% Dept. Stores - 2.0% Newspapers & books - 2.3% Other recreational - 3.2% Pharma and cosmetics -7.2% Other -3.8% Cafes & takeaway - 6.7%	Historical growth rates in each retail sector for the last 5 years (ABS, 2011) except Pharma. A lower growth rate of 7.2% was used based on Morgan Stanley (2011) as 9% growth was considered too high.

Item	Value			Basis
	2011	2015	2021	
Online penetration rates (% of retail segment)				Projections for 2011 and 2015 based on Morgan Stanley (2011). Morgan Stanley projections for 2015 we scaled so that total online penetration across all retail equalled 9.5% of total retail. That is, the mid point of the 7% - 12% achieved in the US and the UK.
Food	1.5	3.2	4.1	
Furniture	6	8.6	9.9	
Electrical	10	26.8	35.3	
Hardware	4	8.6	10.9	
Clothing	6.5	16.1	20.9	
Dept. Store	7	14.0	17.4	
News. and books	40	64.4	76.6	
Other rec.	5	8.6	10.4	
Pharma	5	8.6	10.4	
Other	5	8.9	10.9	
Cafes	1	2.7	3.5	Projections beyond 2015 based on EY's view that online retail will grow, but at a lower rate
Domestic share (%) of online sales (base case)				2011 levels based on CBA (2011), to the nearest 20%.
Food	100	100	100	Domestic market share assumed to decline by 50% in non-food sectors due to greater competition up to 2015.
Furniture	100	50	37.5	
Electrical	60	30	22.5	
Hardware	60	30	22.5	
Clothing	40	20	15	
Dept. Store	40	20	15	
News. and books	40	20	15	
Other rec.	60	30	22.5	
Pharma	20	10	10	
Other	80	40	30	
Cafes	100	100	100	

Appendix B: Detailed modelling results

Table 23: Forecast Australian Retail Total Turnover, Base Case (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Food	98,418	104,334	110,606	117,255	124,304	131,776	139,698	148,096	156,998	166,436	176,441
Cafes & takeaway	32,037	34,175	36,455	38,888	41,483	44,251	47,204	50,354	53,714	57,299	61,122
Furniture	11,742	12,146	12,563	12,994	13,440	13,902	14,379	14,873	15,384	15,912	16,459
Electrical and electronics	20,194	20,889	21,609	22,352	23,122	23,918	24,741	25,593	26,474	27,385	28,328
Hardware	13,436	13,692	13,954	14,221	14,492	14,769	15,051	15,339	15,632	15,930	16,234
Clothing and footwear	20,517	21,238	21,984	22,757	23,557	24,385	25,243	26,130	27,049	28,000	28,984
Dept. Stores	19,824	20,228	20,641	21,063	21,493	21,931	22,379	22,836	23,302	23,777	24,263
Newspapers & books	7,784	7,960	8,140	8,323	8,511	8,703	8,900	9,101	9,306	9,516	9,731
Other recreational	4,774	4,927	5,086	5,249	5,418	5,593	5,772	5,958	6,150	6,348	6,552
Pharma and cosmetics	14,031	15,083	16,214	17,430	18,737	20,143	21,653	23,277	25,023	26,900	28,917
Other	12,405	12,874	13,361	13,866	14,390	14,934	15,498	16,084	16,692	17,323	17,978
Total	255,161	267,547	280,613	294,399	308,948	324,305	340,519	357,641	375,724	394,826	415,009
Growth											
<i>Food</i>	-	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
<i>Non-food</i>	-	3.5%	3.5%	3.5%	3.5%	3.6%	3.6%	3.6%	3.7%	3.7%	3.7%
<i>Total</i>	-	4.9%	4.9%	4.9%	4.9%	5.0%	5.0%	5.0%	5.1%	5.1%	5.1%

Table 24: Forecast Online Retail Turnover (Domestic and Foreign) Base Case (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Food	1,476	2,014	2,610	3,272	4,003	4,432	4,899	5,406	5,956	6,553	7,200
Cafes & takeaway	320	486	671	880	1,113	1,250	1,399	1,563	1,743	1,940	2,155
Furniture	705	807	916	1,032	1,154	1,224	1,297	1,373	1,454	1,538	1,626
Electrical and electronics	2,019	2,968	3,980	5,058	6,205	6,754	7,334	7,945	8,590	9,270	9,987
Hardware	537	705	878	1,058	1,244	1,325	1,408	1,493	1,581	1,672	1,766
Clothing and footwear	1,334	1,890	2,484	3,118	3,793	4,122	4,468	4,835	5,221	5,628	6,058
Dept. Stores	1,388	1,768	2,163	2,573	2,999	3,187	3,382	3,584	3,792	4,007	4,229
Newspapers & books	3,114	3,670	4,249	4,853	5,482	5,782	6,094	6,417	6,751	7,097	7,455
Other recreational	239	291	346	404	465	497	530	565	602	640	680
Pharma and cosmetics	702	889	1,102	1,340	1,609	1,790	1,989	2,208	2,448	2,712	3,002
Other	620	770	929	1,100	1,282	1,379	1,482	1,590	1,705	1,826	1,953
Total	12,453	16,257	20,329	24,687	29,350	31,742	34,282	36,979	39,842	42,883	46,111
<i>Online as % of total retail</i>	4.9%	6.1%	7.2%	8.4%	9.5%	9.8%	10.1%	10.3%	10.6%	10.9%	11.1%
<i>Food online % of all food</i>	1.4%	1.8%	2.2%	2.7%	3.1%	3.2%	3.4%	3.5%	3.7%	3.8%	3.9%
<i>Non food online % of all non food</i>	8.5%	10.7%	12.8%	14.9%	16.9%	17.6%	18.2%	18.9%	19.5%	20.1%	20.7%

Table 25: Forecast Domestic Online Retail Turnover, Base Case (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Food	1,476	2,014	2,610	3,272	4,003	4,432	4,899	5,406	5,956	6,553	7,200
Cafes & takeaway	320	486	671	880	1,113	1,250	1,399	1,563	1,743	1,940	2,155
Furniture	705	706	687	645	577	586	594	601	606	609	610
Electrical and electronics	1,212	1,558	1,791	1,897	1,861	1,942	2,017	2,086	2,148	2,202	2,247
Hardware	322	370	395	397	373	381	387	392	395	397	397
Clothing and footwear	533	662	745	779	759	790	819	846	870	891	909
Dept. Stores	555	619	649	643	600	611	620	627	632	634	634
Newspapers & books	1,245	1,284	1,275	1,213	1,096	1,108	1,117	1,123	1,125	1,124	1,118
Other recreational	143	153	155	151	140	143	146	148	150	152	153
Pharma and cosmetics	140	156	165	168	161	179	199	221	245	271	300
Other	496	539	558	550	513	529	543	557	568	578	586
Total	7,149	8,545	9,702	10,595	11,196	11,951	12,741	13,569	14,438	15,350	16,309
<i>% of total online</i>	<i>57.4%</i>	<i>52.6%</i>	<i>47.7%</i>	<i>42.9%</i>	<i>38.1%</i>	<i>37.6%</i>	<i>37.2%</i>	<i>36.7%</i>	<i>36.2%</i>	<i>35.8%</i>	<i>35.4%</i>
<i>% of total retail</i>	<i>2.8%</i>	<i>3.2%</i>	<i>3.5%</i>	<i>3.6%</i>	<i>3.6%</i>	<i>3.7%</i>	<i>3.7%</i>	<i>3.8%</i>	<i>3.8%</i>	<i>3.9%</i>	<i>3.9%</i>

Table 26: Forecast Foreign Online Retail Turnover, Base Case (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Food	0	0	0	0	0	0	0	0	0	0	0
Cafes & takeaway	0	0	0	0	0	0	0	0	0	0	0
Furniture	0	101	229	387	577	637	702	773	848	929	1,016
Electrical and electronics	808	1,410	2,189	3,161	4,343	4,812	5,317	5,860	6,443	7,068	7,740
Hardware	215	335	483	661	871	944	1,020	1,101	1,186	1,275	1,369
Clothing and footwear	800	1,229	1,739	2,338	3,034	3,332	3,649	3,988	4,351	4,737	5,150
Dept. Stores	833	1,149	1,514	1,930	2,399	2,577	2,762	2,956	3,160	3,373	3,595
Newspapers & books	1,868	2,385	2,974	3,640	4,385	4,674	4,977	5,294	5,626	5,973	6,337
Other recreational	95	138	190	252	326	354	384	417	451	488	527
Pharma and cosmetics	561	734	936	1,173	1,448	1,611	1,790	1,987	2,203	2,441	2,702
Other	124	231	372	550	769	850	938	1,034	1,136	1,247	1,367
Total	5,304	7,711	10,626	14,092	18,154	19,791	21,541	23,409	25,404	27,532	29,802
<i>% of total online</i>	<i>42.6%</i>	<i>47.4%</i>	<i>52.3%</i>	<i>57.1%</i>	<i>61.9%</i>	<i>62.4%</i>	<i>62.8%</i>	<i>63.3%</i>	<i>63.8%</i>	<i>64.2%</i>	<i>64.6%</i>
<i>% of total retail</i>	<i>2.1%</i>	<i>2.9%</i>	<i>3.8%</i>	<i>4.8%</i>	<i>5.9%</i>	<i>6.1%</i>	<i>6.3%</i>	<i>6.5%</i>	<i>6.8%</i>	<i>7.0%</i>	<i>7.2%</i>

National Retail Association Ltd

The threshold question:

Economic impact of the low value threshold on the retail industry

Table 27: Medium Scenario - Change in retail turnover to foreign online retailer with the removal of the low value threshold (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Food	0	0	0	0	0	0	0	0	0	0	0
Cafes & takeaway	0	0	0	0	0	0	0	0	0	0	0
Furniture	0	-42	-96	-163	-242	-268	-295	-324	-356	-390	-427
Electrical and electronics	0	-592	-919	-1,328	-1,824	-2,021	-2,233	-2,461	-2,706	-2,969	-3,251
Hardware	0	-141	-203	-278	-366	-396	-429	-462	-498	-536	-575
Clothing and footwear	0	-516	-730	-982	-1,274	-1,399	-1,533	-1,675	-1,827	-1,990	-2,163
Dept. Stores	0	-483	-636	-810	-1,008	-1,082	-1,160	-1,242	-1,327	-1,416	-1,510
Newspapers & books	0	-1,002	-1,249	-1,529	-1,842	-1,963	-2,090	-2,223	-2,363	-2,509	-2,661
Other recreational	0	-58	-80	-106	-137	-149	-161	-175	-190	-205	-221
Pharma and cosmetics	0	-308	-393	-493	-608	-677	-752	-835	-925	-1,025	-1,135
Other	0	-97	-156	-231	-323	-357	-394	-434	-477	-524	-574
Total foreign	0	-3,239	-4,463	-5,919	-7,625	-8,312	-9,047	-9,832	-10,670	-11,564	-12,517

Table 28: Medium Scenario - Change (or "switch") in retail turnover to traditional and domestic online (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Traditional retail	0	615	848	1,125	1,449	1,579	1,719	1,868	2,027	2,197	2,378
Online retail	0	2,461	3,392	4,498	5,795	6,317	6,876	7,472	8,109	8,788	9,513
Total domestic	0	3,077	4,240	5,623	7,243	7,897	8,595	9,340	10,136	10,985	11,891

Table 29: Medium Scenario - Retail turnover - absolute values (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Traditional	242,708	251,906	261,132	270,837	281,047	294,143	307,956	322,530	337,909	354,141	371,276
Domestic Online	7,149	11,007	13,094	15,093	16,991	18,268	19,617	21,042	22,547	24,139	25,822
Foreign Online	5,304	4,472	6,163	8,174	10,529	11,479	12,494	13,577	14,734	15,969	17,285
Total	255,161	267,385	280,390	294,103	308,567	323,890	340,067	357,149	375,190	394,248	414,384
Traditional share (%)	95.1%	94.2%	93.1%	92.1%	91.1%	90.8%	90.6%	90.3%	90.1%	89.8%	89.6%
Online share (%)	4.9%	5.8%	6.9%	7.9%	8.9%	9.2%	9.4%	9.7%	9.9%	10.2%	10.4%
Foreign %	42.6%	28.9%	32.0%	35.1%	38.3%	38.6%	38.9%	39.2%	39.5%	39.8%	40.1%
Domestic %	57.4%	71.1%	68.0%	64.9%	61.7%	61.4%	61.1%	60.8%	60.5%	60.2%	59.9%

Table 30: Medium Scenario: Summary of economic impacts of the removal of the low value threshold

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Retail employment change (FTE)											
Traditional retail	0	2,786	3,716	4,771	5,949	6,279	6,616	6,960	7,311	7,671	8,038
Domestic Online	0	6,599	8,803	11,301	14,093	14,874	15,671	16,487	17,320	18,171	19,041
Total	0	9,384	12,519	16,072	20,043	21,153	22,287	23,446	24,631	25,842	27,079
Total employment change (FTE)											
Traditional	0	3,949	5,268	6,763	8,434	8,901	9,379	9,866	10,365	10,875	11,395
Online	0	15,796	21,072	27,053	33,737	35,605	37,514	39,466	41,460	43,498	45,581
Total	0	19,745	26,341	33,816	42,171	44,506	46,893	49,332	51,825	54,373	56,976
Retail IVA change (\$m)											
Traditional	0	137	188	250	322	351	382	415	450	488	528
Online	0	736	1,014	1,345	1,733	1,889	2,056	2,234	2,425	2,628	2,844
Total	0	873	1,202	1,595	2,054	2,240	2,437	2,649	2,875	3,115	3,372
GDP Change (\$m)											
Traditional	0	332	458	607	782	853	928	1,009	1,095	1,186	1,284
Online	0	1,329	1,832	2,429	3,129	3,411	3,713	4,035	4,379	4,746	5,137
Total	0	1,661	2,290	3,036	3,911	4,264	4,641	5,044	5,474	5,932	6,421

Table 31: High Scenario - Change in retail turnover to foreign online retailer with the removal of the low value threshold (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Food	0	0	0	0	0	0	0	0	0	0	0
Cafes & takeaway	0	0	0	0	0	0	0	0	0	0	0
Furniture	0	-71	-160	-271	-404	-446	-492	-541	-594	-650	-711
Electrical and electronics	0	-987	-1,532	-2,213	-3,040	-3,368	-3,722	-4,102	-4,510	-4,948	-5,418
Hardware	0	-234	-338	-463	-610	-661	-714	-771	-830	-893	-958
Clothing and footwear	0	-860	-1,217	-1,637	-2,124	-2,332	-2,554	-2,792	-3,045	-3,316	-3,605
Dept. Stores	0	-804	-1,060	-1,351	-1,679	-1,804	-1,933	-2,069	-2,212	-2,361	-2,516
Newspapers & books	0	-1,670	-2,082	-2,548	-3,070	-3,272	-3,484	-3,706	-3,938	-4,181	-4,436
Other recreational	0	-97	-133	-177	-228	-248	-269	-292	-316	-342	-369
Pharma and cosmetics	0	-514	-655	-821	-1,014	-1,128	-1,253	-1,391	-1,542	-1,709	-1,891
Other	0	-162	-260	-385	-538	-595	-657	-724	-795	-873	-957
Total foreign	0	-5,398	-7,438	-9,864	-12,707	-13,853	-15,078	-16,386	-17,782	-19,272	-20,861

Table 32: High Scenario - Change (or "switch") in retail turnover to traditional and domestic online (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Traditional retail	0	1,026	1,413	1,874	2,414	2,632	2,865	3,113	3,379	3,662	3,964
Online retail	0	4,102	5,653	7,497	9,657	10,529	11,459	12,453	13,514	14,647	15,854
Total domestic	0	5,128	7,066	9,371	12,072	13,161	14,324	15,567	16,893	18,308	19,818

Table 33: High Scenario - Retail turnover - absolute values (\$m)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Traditional	242,708	252,316	261,697	271,586	282,012	295,195	309,102	323,775	339,260	355,605	372,862
Domestic Online	7,149	12,648	15,355	18,091	20,854	22,479	24,200	26,023	27,953	29,997	32,163
Foreign Online	5,304	2,314	3,188	4,228	5,447	5,938	6,463	7,023	7,622	8,260	8,942
Total	255,161	267,277	280,241	293,906	308,313	323,613	339,765	356,821	374,835	393,863	413,966
<i>Traditional share (%)</i>	95.1%	94.4%	93.4%	92.4%	91.5%	91.2%	91.0%	90.7%	90.5%	90.3%	90.1%
<i>Online share (%)</i>	4.9%	5.6%	6.6%	7.6%	8.5%	8.8%	9.0%	9.3%	9.5%	9.7%	9.9%
<i>Foreign %</i>	42.6%	15.5%	17.2%	18.9%	20.7%	20.9%	21.1%	21.3%	21.4%	21.6%	21.8%
<i>Domestic %</i>	57.4%	84.5%	82.8%	81.1%	79.3%	79.1%	78.9%	78.7%	78.6%	78.4%	78.2%

Table 34: High Scenario: Summary of economic impacts of the removal of the low value threshold

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Retail employment change (FTE)											
Traditional retail	0	4,642	6,193	7,951	9,915	10,464	11,025	11,599	12,185	12,784	13,396
Domestic Online	0	10,998	14,671	18,835	23,488	24,789	26,118	27,477	28,865	30,284	31,734
Total	0	15,640	20,864	26,786	33,403	35,253	37,144	39,076	41,051	43,068	45,130
Total employment change (FTE)											
Traditional	0	6,581	8,780	11,272	14,056	14,835	15,630	16,443	17,274	18,124	18,991
Online	0	26,326	35,119	45,086	56,226	59,339	62,521	65,774	69,098	72,494	75,965
Total	0	32,907	43,899	56,358	70,282	74,173	78,151	82,217	86,372	90,618	94,956
Retail IVA change (\$m)											
Traditional	0	228	314	416	536	584	636	691	750	813	880
Online	0	1,227	1,690	2,242	2,888	3,148	3,426	3,724	4,041	4,379	4,740
Total	0	1,454	2,004	2,658	3,424	3,732	4,062	4,415	4,791	5,192	5,620
GDP Change (\$m)											
Traditional	0	554	763	1,012	1,304	1,421	1,547	1,681	1,824	1,977	2,140
Online	0	2,215	3,053	4,048	5,215	5,685	6,188	6,725	7,298	7,909	8,561
Total	0	2,769	3,816	5,060	6,519	7,107	7,735	8,406	9,122	9,886	10,702

Appendix C :Disclaimer

For public release

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