

**S U B M I S S I O N**

TO THE

**HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE  
ON  
EMPLOYMENT AND WORKPLACE RELATIONS**

**Inquiry into employment:  
increasing participation  
in paid work**

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## **Introduction**

The National Association of Retail Grocers of Australia is a federation of State-based small retailer associations representing more than 3000 independently owned and operated grocery retailing businesses in all States and Territories.

Our member and allied associations are:

- ❑ Retail Traders and Shopkeepers Association of New South Wales
- ❑ Queensland Retail Traders and Shopkeepers Association
- ❑ Western Australian Independent Grocers Association
- ❑ State Retailers Association of South Australia
- ❑ Tasmanian Independent Retailers.
- ❑ IGA Retail Network

The majority of the stores represented by NARGA and its member associations are located in rural and regional Australia.

In those locations, grocery retailers provide both direct and indirect employment opportunities, directly employing retail staff and indirectly providing jobs for people working in other parts of the supply chain, from primary producers, through processors and manufacturers, packaging, transport and equipment suppliers, and providers of professional and trade services.

Independent grocery retailers also are fundamental to local community infrastructure in many parts of rural and regional Australia and are major contributors to local charities, sporting clubs and service associations.

They are part of the framework of services which form the foundation of a community, along with the health, legal, educational and accounting professions, other specialist retailers and tradespeople.

Grocery retailers are among the largest employers in any community and are often the major employer of young people and people with lower formal qualifications. In that respect, they may be seen as "entry level" employers, giving skills development opportunities through work and training.

### **Obstacles to creating employment opportunities in rural and regional Australia**

The ability of independent grocery retailers to continue to provide employment opportunities in rural and regional Australia is fundamentally linked to their ability to continue to meet their customers' needs at competitive prices.

NARGA has a pro-competitive philosophy. We seek neither protection nor subsidies, but we do seek a level playing field free from misuse of market power by large corporations and free of unnecessary regulatory compliance burdens.

While customers choose retail outlets for a variety of reasons, in general, if grocery retailers are unable to compete on price, sales fall; lack of sales remains the major barrier to employment in small and medium enterprises, according to the *Sensis Business Index*.<sup>1</sup>

The recently-published *Regional Business Development Analysis*<sup>2</sup> found that regional small and medium businesses were not faring as well as metropolitan businesses, had lower and declining profit margins and generally represent lower returns on investment.

The *RBDA Action Plan* "is about placing regional businesses on a level footing with metropolitan businesses so they have a choice of development options." NARGA commends that goal and suggests that the principle should also apply to putting small business on a level footing with big business competitors so far as possible.

There is some evidence that grocery suppliers give the best prices to the major supermarket chains, Woolworths and Coles/Bi Lo - willingly or otherwise - more often than they give the best prices to the major wholesalers who supply independents.<sup>3</sup> Independent grocery retailers, therefore, more often begin from a disadvantageous position in trying to compete with their larger rivals.

The supermarket chains are also able to cross-subsidise their prices, charging higher prices in areas where there is little or no direct competition and charging lower prices in those stores which do face competition, whether from independents or other chain stores. Similarly, they can cross-subsidise transport and distribution costs, particularly on long-haul routes, further disadvantaging independents in rural and regional Australia.

In an industry where average net profit margins are less than three per cent, even a relatively modest saving can translate into a significant retail price and profit advantage.

According to the Australian Bureau of Statistics<sup>4</sup>, the number of independent grocery retailers in Australia fell by 49 per cent during the 1990s, many of them forced out of the industry because they could not remain competitive on price, despite being efficient and competitive in terms of service. Clearly, thousands of jobs were lost and not all of them were recreated elsewhere in the industry. See Attachment 1.

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<sup>1</sup> *Sensis Business Index - Small and Medium Enterprises*, August 2003, p.13

<sup>2</sup> *Regional Business Development Analysis Action Plan*, Commonwealth Department of Transport and Regional Services, Canberra, 2003, [www.rbda.gov.au](http://www.rbda.gov.au), Chapter One, p.1

<sup>3</sup> *Report to the Senate by the Australian Competition and Consumer Commission, on prices paid to suppliers by retailers in the Australian grocery industry*, September 2002, pp. 25-29.

<sup>4</sup> Australian Bureau of Statistics,

### **Compliance costs fall disproportionately on small business**

Small businesses generally are disproportionately impacted by compliance costs, compared with larger businesses.

In 2001, NARGA commissioned chartered accountants Hall Chadwick to investigate the costs of compliance with the GST for retailers of various sizes.

Their findings are at Attachment 2.

Briefly, Hall Chadwick found that small grocery retailers were most disadvantaged by the GST, with compliance costs amounting to 1.25% of annual turnover, compared with 0.41 per cent for medium businesses and 0.06 per cent for large businesses.<sup>5</sup>

Additionally, independent grocery retailers were required to spend an *additional* nine hours per week completing paperwork associated with GST compliance.

NARGA has been in negotiation with the Australian Tax Office since 2001 to try to find ways to reduce the GST compliance burden.

NARGA has argued previously<sup>6</sup> that the restrictive nature of the simplified GST accounting methods fails to reduce the compliance burden for many independent grocery retailers.

Any action to lessen compliance burdens would enhance the ability of small business owners to devote more time and energy to developing their businesses, thus creating additional opportunities for paid employment. Until the compliance burden of small business is addressed, it will remain a dead weight on such businesses.

*The RBDA Action Plan noted that "investment security is undermined by constantly changing legislation and regulations"<sup>7</sup> and that there is "overlap, duplication and, at times, competition between the layers of government - causing excessive regulation and an increase in costs associated with compliance."*

Indeed, grocery retailing, by its nature, covers a multitude of activities which have attracted action from regulators: taxation, food safety, weights and measures, country of origin labelling, workplace relations, workers compensation, workplace health and safety regulations, tobacco retailing, waste management and ozone protection are examples of regulatory areas which in recent years have brought new compliance burdens on grocery retailers.

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<sup>5</sup> Report on the GST Compliance Costs for Independent Grocers, Hall Chadwick, April 2001, p4.

<sup>6</sup>Small business employment, Senate Report, February 2003, p.130

<sup>7</sup> Ibid., Chapter Two, p.1

While some attempts have been made to quantify such compliance burdens and related costs<sup>8</sup>, little has been done practically to reduce such burdens.

NARGA **recommends** that a wide-ranging review of the compliance burden on small businesses be established to examine regulatory imposts at all levels of government across all portfolio areas with a view to urgent reduction of compliance burdens and associated costs.

The *RBDA Action Plan* noted<sup>9</sup>:

*"The Commonwealth, states and territories have made some efforts to reduce the burden of regulation. As part of the National Competition Policy Agreements, the Commonwealth, states and territories undertook to systematically review legislation every 10 years to ensure that unnecessary compliance costs are kept to a minimum. In addition, they introduced Regulatory Impact Statements and more streamlined licensing arrangements. Local governing bodies must now also prepare Regulatory Impact Statements for proposed laws."*

While an RIS is admirable in principle in the context of considering proposed regulation, in some cases they seem to be little more than rationalisations for predetermined positions. While an RIS may be required, there is no requirement that it should be valid or evidence-based. The procedure can thus degenerate into bureaucratic box-ticking.

The recent inquiry into small business employment by the Senate's Employment, Workplace Relations and Education References Committee<sup>10</sup> found that *"the RIS process as it stands and is currently implemented is not a complete or adequate tool for minimising the burden of regulation."*

NARGA **supports** the proposition, put to the Senate committee by a member of the Queensland Government's Red Tape Reduction Task Force, that an RIS should be undertaken at the start of the regulatory process to decide whether regulation is needed at all and, if so, its parameters, not as a rationalisation for a decision or decisions already taken.<sup>11</sup>

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<sup>8</sup> Hall Chadwick, op. cit.; *Food Safety Standards: Costs and Benefits*, Australia New Zealand Food Authority, 1999; *Overcooked: A Study of Food Compliance Costs for Small Business*, Commonwealth Department of Workplace Relations & Small Business, 1998; *Time for Business: Report of the Small Business Deregulation Task Force*, 1996.

<sup>9</sup> Op. cit., Chapter three, pp.3, 6.

<sup>10</sup> *Small business employment*, Senate Report, February 2003, p.138

<sup>11</sup> *ibid.*

### **Misuse of market power**

Prior to the 2001 election, the federal government promised to establish a review of the *Trade Practices Act*. The review was subsequently established under the chairmanship of Mr Daryl Dawson.

The Dawson Report<sup>12</sup>, presented to the government early in 2003, recommended no change in relation to section 46 of the *Trade Practices Act*, which deals with misuse of market power.

Within a month, a Full Bench of the High Court handed down its decision in the Boral case, finding that Boral did not have the *substantial degree of market power* necessary to an offence of misuse of market power. The decision means, in effect, that only a monopolist or near-monopolist is likely to be caught by section 46.

As a consequence, independent grocery retailers, most of them family businesses, may now be exposed to predatory pricing and other forms of unfair and anti-competitive conduct by multi-billion dollar corporations, again putting their viability at risk and putting thousands of jobs in jeopardy.

NARGA's background paper on the necessity for urgent reform of section 46 is at Attachment 3.

Urgent reform of section 46 remains NARGA's top priority for legislative reform.

### **Demographic shift**

Finally, NARGA notes that there has been a long-term population drift from rural and regional Australia, particularly within the 15-24 age group<sup>13</sup>. While some of these people might return to their home towns after securing educational qualifications, many will not unless employment opportunities improve.

NARGA therefore **supports** any broader policies which make rural and regional Australia attractive, particularly including community infrastructure and health and educational services.

The shortage of such professional services is a deterrent to residence in rural and regional Australia, not only for young families, but also for older people.

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<sup>12</sup> NARGA's original submission and three supplementary submissions to the Dawson Review are at [www.tpcreview.treasury.gov.au](http://www.tpcreview.treasury.gov.au). NARGA will also prepare a submission for the current Senate inquiry into the effectiveness of the *Trade Practices Act* in protecting small business.

<sup>13</sup> RBDA *Action Plan*, Chapter four, p.1.

**NARGA recommends:**

- Given recent High Court decisions - urgent reform of section 46 of the *Trade Practices Act* to reassert the intent of the Parliament's 1986 amendments. This is the key reform put forward by NARGA in its submission to the Senate Inquiry into the effectiveness of the *Trade Practices Act 1974* in protecting small business.
- Reduction of the small business compliance burden under the GST by broadening the scope of the simplified accounting methods for food retailers, so that family owned and operated businesses are not excluded from gaining compliance cost relief simply because they operate scanning checkouts or have an annual turnover exceeding \$2 million.
- Reconsideration of the recommendations of the Small Business Deregulation Taskforce (the Bell Committee, 1996) and establishment of a new review of the small business compliance burden at all levels of government
- Reform of the regulatory impact statement process to ensure that the RIS process is evidence-based and undertaken with a view to minimising the compliance burden on small business.

NARGA supports the development of any policies which assist the demographic and economic growth of rural and regional Australia by maintaining essential services and infrastructure.

**In summary, if opportunities for paid employment are to be increased, the employing capacity of small businesses needs to be maximised by allowing them to compete on a level playing field with larger competitors and by proactively minimising the compliance burden to free up financial and human resources for business development.**