

S U B M I S S I O N

to the

**Senate Employment, Workplace Relations and Education
References Committee
Inquiry into Small Business Employment**

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Introduction

The National Association of Retail Grocers of Australia is a federation of small business organizations representing about 4000 family and independently-owned supermarkets and grocery stores employing more than 50,000 people in all States and Territories, not only in major cities but also towns and cities in rural and regional Australia. In many of these places the major supermarket chains are not present: the local grocery store is the heart of the community, providing vital services and employment opportunities. Some of NARGA's member organizations also represent independent liquor and general retailing businesses.

NARGA's member associations are:

- IGA Retail Network
- Food Retailers Association of New South Wales
- Master Grocers Association of Victoria
- Queensland Retail Traders & Shopkeepers Association
- WA Independent Grocers Association
- Small Retailers Association of South Australia
- Tasmanian Independent Retailers
- Canberra Small Business Council Inc.

As the national body for these organizations, NARGA is active in representing their interests to governments, the media, the public and in our relations with community and industry organizations.

NARGA welcomes this opportunity to outline a range of issues and government programs and activities which impinge on the day to day operations of these businesses, with consequent impact on their ability to create and maintain jobs.

Our standard briefing document, the ***NARGA Issues Pack***, is *Attachment 1*.

Independent grocery retailing

NARGA is committed to a pro-competition philosophy and does not seek handouts or protection for its members. Rather, NARGA seeks recognition of and a reduction in the compliance costs faced by small business and the adoption of trade practices and competition policies that enable small businesses to compete vigorously in the marketplace.

Independent grocery businesses nevertheless operate in an environment in which their size and independent status acts as both an advantage and a disadvantage. Advantages flow from the fact that the independent operator is close to his or her business and customers and can innovate or respond quickly and effectively to changing needs.

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Disadvantages flow from the independent business's exposure to the dominant market positions of the major supermarket chains, which are able to extract more favourable prices and trading terms from their suppliers than other buyers can. Further, small business generally, due to their lack of resources and scale, invariably incur disproportionately higher compliance costs in respect of government regulation and taxation than do larger businesses, particularly major corporations which are competitors.

Taken together, the issues outlined below constitute overall a knot of disadvantages and disincentives which impact on the capacity of small business to reinvest in their businesses, to expand and to maintain or expand the number of employees they have.

Clearly, government activities, both intentionally or incidentally, can affect the general environment in which small businesses operate and can impose specific burdens on an individual business or small business generally.

GST compliance costs

NARGA seeks GST simplification. Early in 2001, NARGA commissioned the chartered accountants Hall Chadwick to assess the cost and burdens of GST compliance on independent grocery retailers.

For the six month period ending 31 December 2000, the survey identified that ongoing GST compliance costs across different sized grocery retailers were:

	% of Annual Turnover
• Small - \$6,199.81	1.25
• Medium - \$15,300.43	0.41
• Large - \$27,295.67	0.06

The study found that ongoing GST compliance was disproportionately weighted against small and medium enterprises rather than large ones.

The study also found that small and medium sized independent grocery retailers bore a disproportionate burden in terms of the time taken to complete GST related tasks.

A copy of the **Hall Chadwick report** is *Attachment 2*.

Reform of credit card arrangements

While NARGA supports many of the objectives specified by the Reserve Bank of Australia in its recent review of credit card arrangements for the four-party system, we have expressed a number of concerns about likely outcomes and consequent impacts on small business.

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In particular, we are concerned that small business will be severely disadvantaged if consumers change their choice of payment method to store cards (which can be offered only by large retailers) or cash (which is both disproportionately expensive for small business and a magnet for internal and external crime).

A copy of our **submission to the Reserve Bank of Australia** and **subsequent correspondence** are *Attachments 3 and 4*.

Electricity deregulation, global warming

Deregulation of electricity generation and distribution has opened some opportunities for new players to enter the electricity market. While this may or may not result in cheaper electricity for consumers generally, potentially it may hand additional advantages to large supermarket companies which are best able to negotiate lower prices from electricity suppliers.

Electricity costs are one of the largest fixed costs in the operation of a supermarket. The inability of independent grocery retailers to negotiate lower prices means that electricity costs will remain disproportionately high for small and medium businesses in our sector *vis a vis* the supermarket chains.

At the same time, the Australian Government's refusal to commit to the Kyoto Protocol has almost certainly avoided significant increases in the cost of electricity, which is a benefit to small retailers and Australian industry in general.

Trade practices issues

The major supermarket companies in Australia, Woolworths Limited (Woolworths, Safeway, Roelph Vos, Purity, Food for Less) and Coles Myer Limited (Coles, Bi Lo, Newmart) have already achieved almost 80 per cent of branded packaged grocery sales in Australia.

The market power and resources available to Woolworths and Coles enable them to continue to expand by

- bidding up the price for new sites which become available,
- acquiring successful independent grocers, and by
- driving other competitors out of the market by unfair pricing.

The dominant market positions of these companies affect not only their independent competitors in every food retailing sector, but also their suppliers.

Attachment 5 illustrates **decline in independent store numbers** because of such aggressive expansion by the major supermarket chains during the 1990s.

Attachment 6 illustrates the **growth of Woolworths and Coles/Bi Lo since 1975**.

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Media statements by the chief executives of both Woolworths and Coles Myer during August 2002 specifically outlined plans for continued aggressive expansion through construction of new stores, purchase of stores from successful independent operators, and further rapid expansion into the liquor market to the detriment of independent liquor retailers.¹

NARGA has lodged a major submission on trade practices reform with Sir Daryl Dawson's committee, currently reviewing the *Trade Practices Act*.

A copy of our **submission to the Dawson review** is *Attachment 7*.

National Competition Policy

National Competition Policy has, in general, adversely affected small business, both directly and indirectly. An ideological commitment to "competition" at any cost has, in fact, seen a lessening of competition by driving small businesses from the market.

Deregulation of the dairy industry, for example, resulted in a significant reduction in the number of dairy farmers. Since the dairy industry has always been regionally based, withdrawal of dairy farming businesses from local economies has had a significant adverse impact, flowing through to other businesses and professional services which operated in small towns, regional centres and rural cities to serve the dairy industry.

Coinciding with this was the impact of Woolworths decision to call tenders for the supply of its "Woolworths" brand milk in 2000. The resulting below-cost bidding by milk processors, while ostensibly beneficial for consumers in the short term, saw the processors then try to recoup their losses by paying farmers unsustainably low prices for the milk they produced, driving additional farmers out of the industry.

National Competition Policy requires the development of a far more stringent public benefit test, taking into account a broader range of regulatory impacts on businesses and communities, particularly in rural and regional Australia.

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¹ For example, Woolworths CEO Roger Corbett was quoted in the *Sydney Morning Herald* on 27 August 2002 as saying that Woolworths would open 15 to 25 new supermarkets a year for the "foreseeable future", along with six to eight Big W stores. The company's target for liquor sales [in 2002-2003] had been increased to \$2.5 billion (compared with \$1.4 billion sales reported in 2001-2002). "We are aggressively growth oriented," Mr Corbett said. Coles Myer CEO John Fletcher has outlined similar plans.

In NARGA's view, this can be achieved only by driving small businesses out of the market, including by acquisition.

Cost of insurance

Insurance costs have increased sharply in all areas of cover. Many small and medium retailers have found it extremely difficult to find an insurance company prepared to offer public liability coverage.

This remains a major concern at a time when the community is more inclined to litigate. Government action to make public liability cover available at a reasonable cost is urgently required.

Privacy legislation

Many small businesses remain unaware of the need to comply with privacy legislation by 21 December 2002.

Businesses which have in the past routinely collected customer data for marketing, advertising or sales purposes, industry associations, retailers that offer credit facilities and others face substantial compliance difficulties and costs.

We believe there needs to be a national education campaign to raise awareness of the requirements of the legislation.

Additionally, just as the Australian Taxation Office adopted a co-operative, educative approach to the introduction of the GST, a period of education and co-operation is required after the privacy legislation technically comes into force for small business.

Paid maternity leave

Small business simply could not afford to pay for it. Whatever arrangements are finally reached, the potential for serious damage to small business and to the employment prospects of women of child bearing age is substantial.

Tobacco control

NARGA opposes any additional imposts or regulation of tobacco retailing, including any form of licensing or registration of tobacco retailers.

We are conscious that Australia is a signatory to the Framework Convention on Tobacco Control and that health authorities in all States and Territories are committed to its principles.

As in other areas of regulation, however, the impacts on small business of attempts to reduce tobacco use through regulatory or fiscal mechanisms are often disproportionate, compared to the impacts on the supermarket chains and it is often difficult or impossible to establish a rational causal link between regulatory activities and individual decisions to use or not use tobacco products.

In that context, tobacco control measures take on an aura of ideology, rather than rational administration, given that the product remains legal and a major source of revenue for government.

Entertainment and FBT

Large businesses with in-house dining facilities (or in-house catered facilities) are not subject to fringe benefits tax and the cost are tax deductible for income tax purposes.

Small businesses who use dining out facilities which in turn assist other small businesses and helps create jobs must pay FBT and the cost is not deductible as a business expense. This further puts small business at a disadvantage as they may be using business meals for marketing purposes compared to similar larger companies that are heavy users of paid (and therefore tax deductible) advertising.

Conclusion

Given the importance of small business as a jobs generator and cradle of innovation and entrepreneurial spirit, it is clearly in the national interest to facilitate the growth of small business by :

- strengthening and fine-tuning the *Trade Practices Act* to promote a more level playing field for small business and to prevent abuses of market power by powerful entities
- ensuring greater recognition of the impact on small business and rural and regional Australia in assessing the public interest under National Competition Policy and in the membership of the National Competition Council
- ensuring all proposed new legislation is adequately scrutinised to ensure that every thing possible is done to minimise the complexity and cost of compliance for small business
- addressing burdensome compliance regimes and imposts which disproportionately impact small business.