The Australia Institute

Research that matters.

TITLE: **Let the shopping spree begin**

AUTHOR: **Dr Richard Denniss**

PUBLICATION: **The Canberra Times**

PUBLICATION DATE: **18/03//11**

LINK:

Prime Minister Julia Gillard's decision to give U.S. President Barack Obama an iPod of Australian music speaks volumes about the ongoing evolution of the strong relationship between Australia and the United States. While successive leaders have demonstrated their warm commitment to the international relationship, it is hard to imagine John Howard, or even Kevin Rudd, offering such a gift.

But the Prime Minister's choice of gift raises a number of big questions. First there is the controversy over whether she should have included some AC/DC. Second, how can anyone chose only one Nick Cave song for a compilation album? And finally, but most significantly, did the Australian taxpayer pay up to $2.19 for songs downloaded from the Australian iTunes site or did the PM’s staff wait until they got to America so that they paid only 99 cents for access to exactly the same songs?

Despite the fact that, with much fanfare, previous Australian and American leaders signed a so-called 'Free Trade Agreement' between our two nations Australian consumers continue to face a wide range of restrictions on access to lower priced goods available in the US.

Of course, Apple isn’t the only American retailer to gouge higher prices out of Australian consumers. The jewellery chain Tiffany, for example, charges Australian shoppers $1,500 for diamond earrings but will sell an identical item to American customers for $1,000. Despite the historic passage of the Australia U.S. FTA, Tiffany will not let Australian online shoppers purchase from their American store.

The simple fact is that identical products are sold in different countries at different prices. As the iTunes example makes clear, the price differences cannot be explained by different wages, commercial rents or other costs because when it comes to file sharing over the internet such costs are trivial. Rather, the difference is based on the suppliers’ estimate of the highest price they can get away with charging.

The stated purpose of Free Trade Agreements is, of course, to ensure that customers get access to the widest possible choice of products at the lowest possible prices but it seems someone forgot to tell that to the retailers with outlets in both countries.

In the lead up to Christmas, Harvey Norman and a range of other retailers attempted to blame the trend towards online shopping on the long-standing exemption from GST on products worth up to $1,000 imported by individuals into Australia. While it is true that avoiding the 10% GST helps keep the prices of imported products down, it is also true that avoiding the much higher profit margins imposed by some Australian retailers explains far more.

The Australian retail industry is, by world standards, highly concentrated and highly profitable. The same is true for the owners of the big shopping centres themselves such as Stockland and Westfield.

The current problem for Australian consumers is that by the time they have paid for the profits of the importer, the profits of the retailer and the profits of the shopping centre owner the price of many imported products is far higher than that paid in other countries.

The emerging problem for retailers, however, is that online shopping allows online sellers to cut out the high profits demanded by the big retailers and the shopping centre owners and sell direct to consumers. The ability to avoid paying the GST on imported goods worth less than $1,000 is obviously an advantage, but as the public reaction to the retailers' campaign against the exemption clearly showed, Australian consumers clearly do not believe that the retailers are on their side.

Having lost the PR battle over the GST exemption the retailers are now divided as to how to proceed. While some battle on hoping that the government will infuriate millions of consumers by scrapping the $1,000 threshold, Myer appears to be pursuing the strategy of 'if you can't beat 'em, join 'em' by setting up an online retailer based in China. Companies like Tiffany and Apple, on the other hand, just keep trying to walk both sides of the street by charging different prices on both sides of the Pacific.

The next five years will likely be tumultuous for retailers and a bargain hunter's paradise for consumers. The combination of Australian consumers' increasing reluctance to rack up credit card debts and the rapid increase in awareness of the savings in money and time to be had by shopping online will likely drive the prices charged, and profits earned, by traditional retailers down. At the same time, the volume of goods imported directly by consumers is likely to grow steadily.

Some retailers will no doubt continue to argue that their declining profits are due to the GST exemption and feign concern for the impact of the trend to online shopping on employment. While lower retail employment is a likely outcome of this trend it is hard to take the concerns of retailers seriously when after years of shedding staff they are now busy installing self serve check outs.

The benefits of market competition are often overstated, but when the main casualties are the profits of Australia's big retailers and big property developers it is hard to shed too many tears. Indeed, the whole rationale for competition is to free consumers from exploitation on the part of suppliers.

Similarly, the benefits of Free Trade Agreements are often exaggerated by politicians in hot pursuit of a photo opportunity with a world leader, but when it comes to giving Australian consumers free access to the cheap prices that American companies charge American consumers I say bring it on.

Dr Richard Denniss is Executive Director of the Australia Institute, a Canberra-based think tank www.tai.org.au