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AACS SUBMISSION RE: SUPPLEMENTARY 2020-21 PRE-BUDGET

On behalf of members of the Australasian Association of Convenience Stores (AACS), the peak body for the convenience industry in Australia, we make the following submission to the Pre-Budget Submission process for the 2020-21 Budget.

Convenience stores provide an essential service to Australians in these challenging times. We take our responsibility to remain open to serve customers in a safe, clean and convenient environment, while providing employment opportunities in local communities, very seriously.

The focus of our submission is focused on cost of living pressures. Whenever this pressure is increased, the impacts on our industry are felt significantly, and our ability to play our part in an economic sense is compromised.

One of the key budgetary reforms we seek is a moratorium on the excise increases to legal tobacco.

These tax increases not only impact people in lower socio-economic areas to a greater degree, they fuel the market for illicit tobacco which costs the Australian Government huge amounts of lost tax revenue each year.

Tobacco smugglers and criminal gangs pay no tax.

The steady growth of illicit tobacco sales in our country is well established and this crime has reached crisis point. While criminal gangs and smugglers profit, sales of legal tobacco by responsible retailers and suppliers are lost, while the Australian Government is robbed of excise.

Illegal tobacco products are sold at prices far cheaper than legitimate products, given there is no excise payable by the criminals who supply these products.

As counterproductive Government excise hikes raises the cost of legal tobacco, consumers increasingly shift to the illicit market and products which are sold to people of all ages. It's time to recognise this real problem, and to bring some reality back to the pricing of legal tobacco.

The most recent KPMG report into the illicit tobacco market in Australia for 2019 (released in May 2020) shows that illicit tobacco now accounts for around 20.7% of total tobacco consumption, a huge increase from 14.1% last year.

A moratorium on legal tobacco excise is one the key areas that we have identified as crucial to our industry to navigate the challenges of the pandemic and emerge in a position of strength, so we may continue to play the best possible role we can in the context of the national economy.

I have included our industry's 'Road to Recovery' over the following pages which covers the 10 key areas that, through certain reforms and initiatives, will support the many businesses and people in our industry.

Importantly, you'll notice that our plan is focused not just on supporting our industry, but also on ways we can contribute to local, state and national economies, and support jobs in the process.

Supporting the economy, protecting existing jobs and unlocking new employment opportunities are objectives we all share, especially in the current climate.

We are committed to rolling out this 10-point plan and would appreciate support from an industry investment and tax relief perspective in doing so.

If you have any questions or require any further information, please don't hesitate to contact me directly.

Yours sincerely

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About the AACS

Established in 1990, the Australasian Association of Convenience Stores (AACS) is the peak body for the convenience industry in Australia.

Nationally, our industry employs over 40,000 people in approximately 7,000 stores. The majority of these stores operate as family run businesses, often under licence or franchise agreement, or independent ownership. They regularly employ family members and people from the local communities in which they operate.

The AACS represents the interests of these small businesses; their owners, staff, suppliers and customers.

The convenience industry in Australia was valued at approximately \$8.8 billion in merchandise sales in 2019 excluding petrol, according to companies contributing to the 2019 AACS Annual State of the Industry Report. Petrol accounted for approximately \$35 billion in sales in 2019.

The AACS State of the Industry Report contains the most comprehensive information available on the convenience industry in Australia. We have also recently commissioned research on how consumers have used the convenience channel over the course of the COVID-19 pandemic and we would be pleased to provide copies of both the AACS State of the Industry Report and the research, should these assist any decisions or actions be taken.

Finally, as an Association we enjoy strong ties with our international counterparts including the convenience stores associations in the US, Canada, the UK and New Zealand. We also visit similar stores in South East Asia to keep abreast of changing and emerging trends.



The Road to Recovery

August 2020

Background

The Coronavirus Disease 2019 is a global pandemic affecting countries around the world, in many cases with devastating results. Officially named COVID-19 by the World Health Organization (WHO) on February 11, 2020, the respiratory disease is caused by the SARS-CoV-2 virus that was first detected in Central China's city of Wuhan on December 8, 2019.

Loss of life, business closures, unemployment and lockdowns are unfortunately now commonplace. We are experiencing an event not seen for around 100 years since the Spanish flu pandemic. Governments around the world have reacted very differently and we are fortunate that the Australian Government had the foresight to act early to contain the spread, ahead of the WHO declaration of a pandemic.

Nevertheless, many businesses are shuttered and Government spending is at levels never before seen to support small businesses and people affected by this virus. Many businesses are taking different approaches to keep trading and even innovate during these times, as we can no longer just do business the old way.

This includes the convenience industry. Whilst suffering downturns in fuel volume as has been widely reported in the media, we have to date successfully lobbied for our industry to be allowed to continue to operate during this pandemic. This however comes with enormous responsibilities to our staff and customers, whether retailers or suppliers, from a health and wellbeing perspective.

We will ultimately get through this, however there are still many months of uncertainty and various restrictions ahead for our country. But we're not taking a wait-and-see approach.

Our industry

As reported in our recently released 'AACCS State of the Industry Report 2019', merchandise sales in our almost 7,000 stores reached \$8.8 billion last year, and according to the 'ACCC Financial performance of the Australian downstream petroleum industry 2002 – 2018'

(released April 2020), retail sales performance was 25 billion litres (approx.) equating to \$35 billion. (approx.)

Our industry employs well over 40,000 people and stores may be independent, franchised, or corporate-owned.

Charting the future course

The question now as governments consider a road to recovery, with an emphasis on stimulating the economy and supporting jobs, is how AACS can assist our members through the months ahead, bringing useful information to them as well as putting the position of the industry forward to governments to chart a course for future success.

AACS has developed a 10-point plan to be presented to politicians and the appropriate authorities over the coming months to make clear our position on key issues. Our plan is based on responses to this question:

What measures would convenience operators like to see implemented to assist our industry recover more speedily, for a stronger future?

Our 10-point plan

We see the following 10 areas as being critical to the future health of the industry, supporting our ability to compete, contribute to the national economy and provide employment opportunities for people. Others, like the potential for Government to subsidise training initiatives for our industry, are important too. But these 10 are what we're focused on now:

1. Bring Australia into line with the rest of the world and permit the convenience industry to sell packaged alcohol.

Convenience store operators are proven responsible retailers. We sell age-restricted products such as tobacco and lottery tickets and, with the appropriate training in place, we can safely and responsibly sell packaged alcohol too, as convenience stores around the world do.

The potential economic opportunities for our industry in this category are significant, including supporting new job creation on the retailer and supplier side.

In our discussions with politicians, we've made our proposed framework very clear. We do not propose to sell alcohol 24 hours a day, and would instead observe the trading hours that other retailers in local areas follow. Our staff would be fully trained in accordance with the responsible service of alcohol. We have offered to make separate areas in our stores available for alcohol purchases.

The fact is, alcohol regulations are archaic and inconsistent in many states and current liquor laws unfairly favour the major supermarkets. Many of the major liquor store chains are directly owned by the two majors and stores like ALDI sell liquor off the shelf. Home delivered alcohol is a growing sector for new players. There is a shift occurring in the alcohol market yet still, small businesses in the convenience industry are prevented from competing in this space.

This is a category with real potential for our industry and this pandemic is the ideal time to de-regulate the market and open new revenue opportunities up to our operators, as well as those suppliers of alcohol products squeezed out by the major chains.

2. Regulate the legal sale of e-cigarettes from retail outlets including convenience stores.

Public Health England has stated that e-cigarettes are 95% safer for users than traditional tobacco products. Over 50 progressive countries have regulated the legal sale of these products to assist in lowering traditional smoking rates. Many Australian experts agree that e-cigarettes are a safer alternative to smoking tobacco and should be widely available.

Internationally, these products have assisted many people quit smoking, but Australians are being denied these potential health benefits. Likewise, Australian retailers are being denied the opportunity to offer adult consumers a safer alternative at the source.

Like illicit tobacco, which is sold indiscriminately to anyone including minors, so too is there a black market for e-cigarettes and nicotine-based liquids. The latter is illegal in Australia yet widely used, purchased by Australians either from overseas or through illegal sources, with unknown ingredients and from unknown sources of manufacture.

The Select Committee on Personal Choice and Community Safety, in its Final Report, has urged the Government to require the Therapeutic Goods Administration to review the scheduling of liquid nicotine.

But the wheels are turning too slowly. Australians are being denied safer alternatives, small businesses are missing out on economic opportunities, criminals are profiting and products of unknown origin and ingredients are being widely used. A legal framework regulating the sale of e-cigarettes is urgently required.

3. Define a safe trading convenience environment through COVID-19 and beyond.

AACS has developed a detailed plan for industry operators to refer to as a minimum standard to operate through the pandemic and beyond. We will continue to be guided by Australian health experts on any changes required and new developments, in recognition that this is a fluid situation. To this end, we have recommended our members and their teams download the COVIDSafe app and receive flu vaccinations.

We are doing what we can to ensure Government guidance and health advice is practically implemented at an industry level to create a safe place for our people to work and our

customers to visit. To continue to do this, we require detailed, clear guidance when it comes to new measures, changes and other advice. AACS is developing separate health and safety plans for members to assist them in this regard.

4. Least cost routing for electronic payments to be implemented and available to convenience stores.

The move away from cash transactions has intensified during the pandemic. Tap-and-go is far more frequently used in convenience store transactions and operators are providing this option, but at an unfair cost.

That's because stores are currently prevented from routing tap-and-go transactions through the least costly payments network. Instead of using Australia's own eftpos network, which is significantly cheaper, our members are forced to use more expensive international networks such as Visa and Mastercard to route these transactions. The difference amounts to thousands of dollars each year.

It's an issue that has not gone unnoticed. The Reserve Bank has made clear that merchants should have access to the lowest transaction cost route for tap-and-go payments, however the big banks have still not offered this choice.

The Reserve Bank's Review of Retail Payments Regulation is meant to address this issue but has been postponed in the wake of COVID-19. The delay means convenience stores continue to pay higher transaction costs. We need an immediate solution.

Requiring the big banks to offer convenience stores and other merchants the lowest cost route for processing tap-and-go transactions is an immediate and practical way for Government to reduce costs, support businesses and underpin jobs at this time. If needed, the Reserve Bank should step in to regulate to make this a requirement.

5. Industrial relations reform

There is substantial confusion, complexity and duplication of tasks required in order for employers to ensure they are classifying employees and tasks in the correct way.

Different sources of entitlements under different Acts, difficulty in interpretation of laws and industrial instruments, complex penalty rate applications and challenges in classifying team members are some of the areas which create ongoing headaches for well-meaning small business owners.

The complexity of the award system hinders productivity, creates an administrative burden and ultimately, has the effect of constraining new employment opportunities at a time when people are increasingly seeking flexible work arrangements.

AACS will make submissions to government and collaborate with other Associations on:

1. Award simplification
2. Enterprise agreement making
3. Casuals and fixed term employees
4. Compliance and enforcement
5. Greenfield agreements for new enterprises.

We are encouraging our members, including retailers, to provide actual examples of issues that they have experienced so that we may use these, unidentified if necessary, to highlight these to government.

6. Temporary suspension of non-essential regulatory reviews.

We believe that time consuming reviews that add nothing to productivity, business growth or public benefit should be held over until the economy improves or even reconsidered entirely for relevance.

This is not the time for additional layers of unnecessary red tape, including additional taxation with the potential to negatively impact retailers, to be applied to businesses working hard to secure their future. Such reviews typically impact the ability of small businesses to compete and this is at odds with the shared goal of supporting the economy and jobs.

7. A moratorium on further legal tobacco excise increases and greater law enforcement at street level on the illicit tobacco trade.

The steady growth of illicit tobacco sales in our country is well established and this crime has reached crisis point. While criminal gangs and smugglers profit, sales of legal tobacco by responsible retailers and suppliers are lost, while the Australian Government is robbed of excise.

Certainly, the excellent work that Border Force is doing in making seizures of large quantities of illegal tobacco products is commendable. However, illegal products are still making it to street level in droves, to be sold at prices far cheaper than legitimate products, given there is no excise payable by the criminals who supply these products.

As counterproductive Government excise hikes raises the cost of legal tobacco, consumers increasingly shift to the illicit market and products which are sold to people of all ages. Its time to recognise this real problem, and to bring some reality back to the pricing of legal tobacco.

The most recent KPMG report into the illicit tobacco market in Australia for 2019 (released in May 2020) shows that illicit tobacco now accounts for around 20.7% of total tobacco consumption, a huge increase from 14.1% last year. The black economy is thriving while the real, shared economy falters.

8. Tax reform, including an extension to tax relief which reduces the corporate tax rate, and the removal or significant reduction in payroll tax.

Tax reform is a topic that has been discussed in countless forums over the years. These discussions consistently fail to deliver real outcomes. But now, the opportunity and necessity of genuine tax reform takes on a new, elevated importance.

As the Government looks to kick start the economy in the wake of COVID-19, tax reform has the potential to spur investment, incentivise businesses and provide employment opportunities. The days of penalising businesses, particularly small businesses, for giving people meaningful employment must be left behind.

Many operators are committing huge amounts of time and energy to maintain their businesses, putting strain on their health, wellbeing and families, so being able to maintain a team is important to them as well.

9. Clarity and consistency in the guidance provided to business and individuals.

Bureaucracy leads to a loss of productivity, red and green tape, confused messages and inertia. This is the time for consistent messages across various levels of Government - Federal, state and local - to allow businesses to get on with what they do best – serving their customers in the most efficient manner.

We need clear, unambiguous guidance on operational procedures related to areas like social distancing and hygiene that our industry can easily follow and implement while ensuring our ability to conveniently serve our customers remains the priority. Similarly, consumers need clear guidance on what is expected of them in their interactions with other people and businesses, so they can contribute to the economy in a confident, safe way.

Safe Work Australia's COVID-19 resource kit is a good benchmark in terms of clear, useable content for adaptation by businesses.

10. Re-open our internal borders as soon as it's safe to do so.

Governments, Federal and state, have done a commendable job in attempting to manage the COVID -19 threat. However, there will be a time when a relaxation of restrictions is required to boost tourism, regional businesses and movement across our country. This needs to happen as soon as is safely possible.

Whether these restrictions are relaxed in a staged manner or in full, businesses will require maximum notice to prepare their resources accordingly.

A safety net for the industry

COVID-19 has changed the operating environment for all businesses, for good. AACCS is focused on ensuring its members and the industry are prepared for the challenges during the pandemic and beyond.

This means providing access to information, tools, resources and advice to ensure continuity of operations in the event of further unexpected challenges.

Along with health and safety precautions and contingencies for the ongoing COVIDSafe operation of convenience stores, a comprehensive guide on which AACCS is developing for members, businesses will also need to consider and plan for possible future disruptions.

Examples might include a virus outbreak in a location requiring lockdown; interruption to staffing due to illness or other reasons; interruption to supply, including in the event of unusually high demand again being experienced for certain products should restrictions be re-imposed; and more.

COVID-19 has shined the spotlight on the need to prepare for the unexpected and cement business continuity procedures. AACCS is well advanced in this work.