Master Grocers Australia Ltd

Trading as:

MGA Independent Retailers

Annual Wage Review

2017-2018

Submission to

The Fair Work Commission Wage Panel

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National Support Centre - Suite 5, 1 Milton Parade, Malvern VIC 3144
P 1800 888 479 | **F** 03 9824 4022 | www.mga.asn.au | **ABN** 44 004 063 263

MGA INDEPENDENT RETAILERS

CONTENTS

1. ABOUT MASTER GROCERS AUSTRALIA / LIQUOR RETAILERS AUSTRALIA 3

2. EXECUTIVE SUMMARY 4

3. LEGISLATIVE STANDPOINT 5

4. RETAIL AS A SIGNIFICANT ECONOMIC SECTOR 7

5. THE VALUE OF SMALL BUSINESSES TO THE ECONOMY.. 14

6. UNEMPLOYMENT RATES 14

7. EFFECT OF A SUBSTANTIAL WAGE INCREASE ON INDEPENENT RETAILERS 17

11. OUTLOOK FOR THE RETAIL INDUSTRY 2018-2019.. 21

12. CONCLUSION 2323

ABOUT MASTER GROCERS AUSTRALIA
(MGA INDEPENDENT RETAILERS)

MGA Independent Retailers (MGA) is a national employer industry association representing independent grocery, liquor and other retail outlets including hardware, in all States and Territories. These businesses range in size from small, to medium and large, and make a significant contribution to the retail industry, accounting for approximately $15 billion in retail sales.[1]

There are 2,700 branded independent grocery stores, trading under brand names such as: Supa IGA, IGA, IGA Xpress, FoodWorks, Foodland, Farmer Jacks, Supabarn, Friendly Grocers, and SPAR, with a further approximately 1,300 independent supermarkets trading under their own local brand names. In addition, there are numerous independent liquor stores operating throughout Australia and trading under names such as: Cellarbrations, The Bottle O, Bottlemart, Duncans, and Local Liquor, which are either single or multi-store owners. Our member's independently own hardware stores trade under brand names including; Mitre 10 and True Value Hardware. These stores which collectively employ more than 115,000 staff are comparatively much smaller when juxtaposed against the large supermarket chains of Coles and Woolworths which combined represent approximately 80 per cent of the retail supermarket industry.

A substantial number of employees in the independent supermarket, liquor and hardware sectors are employed on the minimum award rates set by the General Retail Industry Award 2010 ('GRIA') and the Timber Industry Award. The level of susceptibility to a wage increase is far greater on independent stores because many of these businesses are generally small in nature, community-based, and family-run. These businesses face genuine difficulty in absorbing the costs of wage increases as opposed to their larger chain counterparts, and they struggle to maintain viability when faced with increased wages costs. Any wage increase can cause financial difficulties and this can impact on the levels of employment.

MGA thanks the Fair Work Commission ('the Commission') for the opportunity to make this submission to the Minimum Wage Panel ('the Panel') on behalf of its members for the purposes of the Annual Wage Review 2017-18.

[1] PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p iv

EXECUTIVE SUMMARY

MGA supports an increase to the national minimum wage and modern award rates of not more than 1.1% based on a 38-hour working week in the General Retail Industry Award. It is not economically feasible for the independent supermarket, liquor and hardware sectors across Australia, which form the predominant membership of MGA, to sustain an increase to award rates in excess of 1.1%, following the 3.4% increase in July 2017.

In the last financial year MGA members have been affected significantly by the decision of the Commission to include overtime for casual employees in the GRIA. This has had the effect of

significantly increasing wage costs. Other proposed variations such as casual conversion, and possible increased remote allowances in the award, are soon to be decided as part of the Award Review process. Any further increases in costs for retailers will have a severe adverse impact on the financial stability of independent businesses.

The Commission gave its decision in the Sunday Penalty Rates case in 2017 and that outcome has produced pleasing prospects for employers into the future. Employers were further buoyed by the outcome of the appeal against the decision, although the full benefits of the decision for employers will not be realised for some considerable time. It is hoped that any further political challenge to the decision is avoided.

It is imperative that the Panel is cognisant of the value that independent stores provide to the Australian economy and to the communities in which they operate. In particular, they are a key gateway for employment which is significant, given levels of unemployment amongst young Australians (those aged between 15 and 24) who, as an age group, are predominantly employed in award-reliant retail businesses.

Independent stores are primarily small businesses. Many small businesses operate with limited resources in the most concentrated supermarket sector, where 80 per cent of the market share is controlled by Coles and Woolworths. There has been some respite for smaller supermarkets who have for years been stymied by the power of the duopoly. The introduction of the effects test into the Competition and Consumer Act in 2017 has assisted in the fight to control the unabated growth of the chains, but the true value of the new competition laws is yet to be tested. Nevertheless, independent supermarkets and liquor stores continue their endeavours to remain viable in difficult market conditions.

MGA submits to the Panel that any increase in wages at this stage will have a detrimental effect on independent small businesses and in the event that the Panel chose to provide an increase it should be no more than 1.1%. Any amount awarded in excess of 1.1% to the minimum award rates will adversely affect independent supermarkets, liquor and hardware stores. If independent retailers need to cope with an unreasonably high wage increase they will have no choice but to implement measures such as staff reductions, and the employment and allocation of more shifts to juniors in preference to senior staff members. Such adjustments would be inevitable in the light of previous adjustments that have already been made. There would also be an increased risk of redundancies or at the most extreme - store closure.

LEGISLATIVE STANDPOINT

The Commission is required to undertake an annual wage review each financial year, which involves an assessment of award wages and the national minimum wage order. This function is mandated by s.285(1) of the Fair Work Act 2009 (Cth) ('the Act').

The overarching imperative of the Commission is to "establish and maintain a safety net of fair minimum wages"[2] by taking into account the "minimum wages objective". Specifically, this requires the Commission to consider:

(a) the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth; and

(b) promoting social inclusion through increased workforce participation; and

(c) relative living standards and the needs of the low paid; and

(d) the principle of equal remuneration for work of equal or comparable value; and

(e) providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability.[3]

The legislative note contained in s.284(2) of the Act also specifies that the Panel must have regard to the "modern awards objective" in s.134 when varying modern award minimum wages. According to the modern awards objective, the Commission must ensure that modern awards, together with the

[2] Fair Work Act 2009 (Cth), s.284(1)
[3] Ibid.

National Employment Standards, provide a fair and relevant minimum safety net of terms and conditions, taking into account:

(a) relative living standards and the needs of the low paid; and

(b) the need to encourage collective bargaining; and

(c) the need to promote social inclusion through increased workforce participation; and

(d) the need to promote flexible modern work practices and the efficient and productive performance of work; and

(da) the need to provide additional remuneration for:

(i) employees working overtime; or

(ii) employees working unsocial, irregular or unpredictable hours; or

(iii) employees working on weekends or public holidays; or

(iv) employees working shifts; and

(e) the principle of equal remuneration for work of equal or comparable value; and

(f) the likely impact of any exercise of modern award powers on business, including on productivity, employment costs and the regulatory burden; and

(g) the need to ensure a simple, easy to understand, stable and sustainable modern award system for Australia that avoids unnecessary overlap of modern awards; and

(h) the likely impact of any exercise of modern award powers on employment growth, inflation and the sustainability, performance and competitiveness of the national economy.

Complementing these considerations are the general objects contained in s.3 which the Panel must also consider. While many of these objects overlap with the content contained in ss.134 and 284, MGA draws the Panel's attention to s.3(g) which requires acknowledgment of the special circumstances of small and medium-sized businesses.

Business competitiveness and viability is directly impacted in a negative manner by unsustainable increases to award rates of pay. This is particularly the case with respect to small businesses, which carry a large proportion of award-dependent employees and derive only modest incomes from their operations. An increase in award rates of pay will involve a direct trade-off between the livelihood of small business proprietors and individuals paid in accordance with award rates.

MGA notes that the Panel may, under s.285 (2)(b), make one or more determinations about modern award minimum wages. It is therefore open to the Panel to:

(a) decline to make any determination about modern award minimum wages; or

(b) make modern award minimum wage determinations specific to particular modern awards.

The ability to grant a differential increase for one or more modern awards is within the purview of the Commission's powers. This would consequently allow those industry sectors, such as retail, which will be most affected by an increase to the minimum award wage, to be granted an exemption from any increase to the designated modern award.

MGA notes that there is no overriding obligation imposed on the Panel to adjust wage rates in all modern awards. Section 284(1) of the Act provides that the Panel must 'establish and maintain' a safety net of minimum wages, while s.285 (1) and (2) only place mandatory statutory obligations on the Panel to conduct and complete an annual wage review in each financial year. It is therefore open to the Panel to make no adjustment to the minimum award rates of pay which, based on the rising unemployment levels in Australia and competitive business environment, is not unreasonable in the circumstances.

Nevertheless, the reasons predicating a minimal increase in the vicinity of 1.1% for GRIA-reliant employers will be considered in this submission. It is MGA's considered opinion that an increase of this nature will adequately satisfy the Panel's considerations and ensure the continued sustainability of independent supermarkets, liquor and hardware stores in Australia.

RETAIL AS A SIGNIFICANT ECONOMIC SECTOR

The retail industry is a significant contributor to Australia's economy and employment levels. There are more than 133,000 retail businesses in Australia, contributing around 5 per cent of gross domestic product and 9 per cent of total hours worked in the Australian economy.[4] Food retailing – the bulk of which in terms of turnover comes from supermarkets and grocery stores – accounted for around 48% ($108.2 billion) of total retail turnover in 2013-14.[5]

Approximately 95 per cent of all retail businesses are either non-employing or small businesses (1 – 19 employees)[6]. Around 51% of retail employees work in a full time capacity, with the remaining portion working either on a part-time or casual basis.[7]

The Australian retail sector, particularly independent supermarkets, employs a far greater proportion of the least-skilled and most vulnerable workers in Australia, including youth, students, single parents, non-primary income earners in households, trainees, apprentices, and mature-aged workers returning to the workforce. As stated earlier in this submission, more than 115,000 individuals are employed in the independent supermarket industry across a variety of roles, and this represents a significant proportion of all employees employed in grocery retailing as a whole.

The retail industry, as distinct from other private sector industries, employs a high proportion of award reliant employees. The Commission's Research Report 1/2017[8] at 3.22 refers specifically to the retail industry as one of the highest award reliant industries in Australia, with 37.2% of the industry being award reliant. Clearly the retail industry forms a critical component of the overall national economy. It should be noted however, that larger retail businesses, such as Coles and Woolworths have for many years negotiated enterprise agreements with the Shops Distributive and Allied Employees Association and that Coles has struggled in the last 12 months to meet the agreement making requirements of the Fair Work Act 2009. The independent retail supermarket sector is certainly more reliant on the award than the bigger supermarkets, like Coles and Woolworths.

Because a significant number of independent supermarkets and MGA members are reliant on the GRIA, MGA seeks that the Panel be mindful of the impact of any wage increase on those who are not able to enter into enterprise bargaining simply because they could never meet the" better off overall" test that

[4] Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Research Report, Canberra, p 2.
[5] Ibid p. 38
[6] ABS*, Counts of Australian Businesses, Including Entries and Exits, June 2010 to June 2014*, April, Canberra, Cataloguer No. 8165.0
[7] ABS, *Labour Force, Australia, Detailed, Quarterly, Nov 2014*, Catalogue No. 6291.0.55.003.
[8] Fair Work Commission Award Reliant workers in the household income distribution Carlos Jimenez and david Rozenbes February 2017 page 14

is a pre-requisite for such an agreement. In support of this point, MGA refers to the Panel's 2009-10 Annual Wage Review decision, wherein it accepted that:

"for some employers, particularly in award-reliant industries, there will be cost increases arising from the application of modern award wages and conditions. And this is clearly a relevant consideration for us. [9]

Increases to the award rates of pay effectively magnify the labour costs associated with retail businesses which puts a further strain on their operations.

Wage increases in Award-reliant industries such as the retail industry will inevitably impact on the national economy. If a large increase occurs to the GRIA wage rates retailers will reluctantly need to decide whether the store can afford to retain staff. The supermarket industry in Australia is highly competitive and intense competition, together with award reliance, makes the task of meeting higher wages extremely difficult when their rivals have enterprise agreements. The competition is made more intense by the ability of the chain stores, such as Coles and Woolworths, to utilise their buying power to open up increasing numbers of new stores that causes many smaller retailers to simply close down. Although we now have the inclusion of the "effects test" in Section 46 in the Competition and Consumer Act, the ability of the Chains to expand still takes its toll on more vulnerable entities. As wages increase and the cost burden becomes more demanding smaller businesses become unable to cope with the pressures of increased wages and the loss of market share.

The cost of doing business is an ever an increasing concern for retailers and the fact the industry is also facing significant changes into the future will make managing a smaller business even more difficult. In comparison with other business sectors, according to Riki Polygenis – Head of Australian Economics, National Australia Bank, the retail sector is underperforming and she states that this is due to a number of factors including,

- "Structural changes in the industry driven by a shift to online shopping;
- Fierce competition leading to market compression;
- Changes in consumer preferences, including a greater emphasis on experiences;

[9] [2010] FWAFB 4000, 291.

- Very low wage growth and higher inflation for essentials limiting the consumer's ability to spend."[10]

Change to the retail industry has been coming for some time. It is not a phenomenon that has just happened, the industry has been cognizant of the changing retail environment for some time, but facing change is often difficult, not in the least due to the costs associated with change. On line sales of groceries and liquor are slowly beginning to take their toll on smaller stores. New innovative ideas to attract the consumer into buying ready prepared meals and wines are becoming more prevalent and there are signs that unless retailers prepare themselves to cope with these new trends then their businesses will be marginalised and eventually cease to exist. Unfortunately, implementing new ideas needs investment, and if costs, including increased wages, continue to increase then smaller businesses will disappear.

Increased competition is a major problem for the independent retailer. The appearance of overseas investors is on the rise. Over the past 10-15 years it has been the growth of the chain stores such as Coles and Woolworths that have been the biggest threat to small grocery stores. Now we have Aldi, Kaufland and possibly Lidl, as new entrants from Europe into the grocery retail market bringing with them a new threat to sustainability. The independent retail sector has struggled with determination to fight competition from a new rival source and they are realising that they will need to adapt to change but they will only be able to do so if the major part of their costs, which is wages, is maintained at a level they can afford.

MGA submits that while the independent supermarket, liquor and hardware store sectors are a substantial contributor to Australian employment as a whole, their longevity in maintaining high employment levels will be greatly assisted by awarding a minimal wage increase to the GRIA of no more than 1.1%.

THE VALUE OF SMALL BUSINESSES TO THE ECONOMY

Small to medium sized businesses play a major part in the economy. It is easy to overlook the importance of small businesses, as their significance tends to be overshadowed by the power that larger

[10] "The Future of Retail – The Australian Economy – NAB Trends reshaping retail and future implications for the Australian Market Place – National Australia Bank- September 2017 Page 14

businesses are able to generate in the business world, simply by virtue of their size. In realistic terms the significance of smaller businesses cannot be underestimated. The importance of small businesses to the Australian economy was explained by the Australian Small Business and Family Enterprise Ombudsman, Kate Carnell, “The vast majority (over 9 in 10) of Australian businesses are small. They account for 33% of Australian GDP, employ over 40% of Australia’s workforce and pay around 12 percent of total company tax revenue.”[11]

There are over two and a half million small businesses in Australia that employ less than 19 staff but the account for 97% of all Australian businesses by employee size.[12]

Independent supermarkets vary in size, some operate as very small businesses and fit the true definition of a small business as having under twenty employees. Many independent supermarkets have grown their businesses and are now able to boast a much greater number of employees, although they remain significantly smaller beside their larger rivals.

Nevertheless, many of them have grown considerably in spite of the challenges that they are forced to overcome.

More than 115,000 individuals are employed in the independent supermarket industry, either on a full-time, part-time or casual basis, and working across a seven day working week. Given that almost 285,000 people are employed in grocery retailing (including supermarkets) accounting for almost one-quarter (23.9 per cent) of all retail industry employment in Australia[13], the value of independent supermarkets cannot be underestimated.

Despite struggling for survival against the likes of Coles and Woolworths, small independent supermarkets play a fundamental role in the communities in which they operate. They are heavily committed to supporting their employees, many of whom include working mothers, tertiary students, school children, trainees and apprentices. Further, independent supermarkets are a key means for developing transferable job skills (e.g. interpersonal and communication skills) which enable employees who work in the industry to better enhance their abilities and qualifications, thereby contributing to social and economic participation. The flexibility which they offer by way of

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[11] “Small Business Counts” – Australian *Small Business and Family Enterprise Ombudsman,-Small Business in the Australian Economy Commonwealth of Australia 2016 Page 6*

[12] Ibid page 8

[13] ABS, *Labour Force Survey – Detailed Quarterly – May 2013*, Catalogue No. 6291.0.55.003, Data cube E06, Employed Persons by Sex, Industry, State, Status in Employment.

employment options – offering both permanent and casual positions – as well as providing opportunities to those who wish to aspire to managerial levels, denotes their importance in encouraging and increasing labour force participation.

Independent supermarkets enhance competition and consumer choice which is fundamental in Australia given the market concentration in the supermarket industry. Independent supermarkets have variable price merchandising, product selection, convenience and customer service, so as to offer customers a different and more distinct experience in grocery shopping.

The ability for small independent supermarkets and liquor stores to compete is hindered in an environment where heavy discounting practices have become a common practice instituted by the chains. Unlike their large chain counterparts, independent retailers cannot implement cross-subsidisation mechanisms as many of these retailers are single store owners. Additionally, their reliance on the GRIA means they are susceptible to any wage increase which has the effect of increasing the magnitude of penalty and overtime payments.

Independent supermarkets source a great proportion of their goods and services from local producers and local service providers (e.g. local accountants, local printers, and local storage, warehousing and wholesalers), and account for a larger proportion of grocery employment than the market share they hold. These types of support services would likely be procured interstate or centrally by other major grocery retailers.

Local businesses also make a major contribution to their local communities. Generally. many small to medium businesses contribute significant amounts of money to their local communities. It is estimated that between 2015 to 2016 they donated $8.5 million to community organisations because they wanted to demonstrate their commitment to their local community and a personal connection to a cause.

Small business owners in the independent supermarket industry often earn less income than their employees – despite working longer hours, having more experience, and making significant capital investments. Operating a business is not devoid of significant psychological stresses which will only be compounded by rising wage costs. Owning and operating a business comes with a substantial liability, and for many MGA members, if an analysis was undertaken between the hours invested in working in their store and the profits yielded at the conclusion of each week, many retailers would be found to be earning below the national minimum wage or the minimum modern award wage.

A growing trend in recent years is the introduction and prevalence of self-service checkouts in the chain supermarkets. This results in increased productivity levels from a purely statistical point of view. However, the capacity for independent retailers to adopt these mechanisms is limited. Self-service checkouts result in a reduced number of retail jobs. Any apparent improvement in aggregate labour productivity does not automatically translate into an immediate capacity to increase award wages more rapidly, particularly if the statistics are being generated from retailers that are phasing out the human element associated with customer service.

There has been a decline in the number of enterprise agreements in the independent retail sector. Eight to ten years ago MGA assisted a number of employers to enter into enterprise agreements prior to the finalisation of award modernisation. At that time there were numerous awards in existence which had become extremely complex in many aspects and the availability of a simple agreement was an attractive option for retailers. The complexities afforded by the outmoded award system was referred to in the research undertaken by the Fair Work Commission,

"As an indication of the complexity, in 1997 there were 1745 Federal and 656 State awards in just South Australia, Tasmania and Western Australia and the award for TCF workers specifies over 700 separate job classifications …. Even with the shift to the modern award system in the 2000s , there remain 122 modern awards, generally with many different minimum wage rates specified in each award." [14]

A problem facing many independent retailers who made enterprise agreements prior to award modernisation is that they continue to rely on those agreements as they cannot afford to undertake new agreements. One reason is the stringent penalties that now exist in the General Retail Award that would apply to them if the agreement was terminated. They are also reluctant to attempt to enter into a new agreement as they are not in a position to meet the demands of the "better off overall test" that must be passed before an agreement can be reached. Any new retailers who enter the supermarket sector are reluctant to make enterprise agreements as they know the barriers of the better off overall test and they opt to use the General Retail Industry Award.

The research report, "Employee and employer characteristics and collective agreement coverage" 1/2018 David Peetz (Griffith University and Serena Yu (University of Technology Sydney) February

[14] "A review of methods applied in international research of the employment effect of the minimum wage and implications for Australia" Research Report 4/2018 Jeff Borland, Department of Economics , University of Melbourne February 2018 Page 2

2018 found that collective agreement coverage is highest among medium to large employers but they counted any employer with more than 20 employees as part of the medium to large group. The larger employers in the independent supermarket retail sector are Coles and Woolworths who have been using enterprise agreements from as early as the late nineties. As previously mentioned although some independent supermarkets have agreements the vast majority of retailers in the independent sector are award reliant. A relatively few independent retailers would have numbers of employees consisting of 100 employees or more and they would not be considered as small but they do they fit into the large category of either Coles or Woolworths.

The independent supermarkets sector is an industry that struggles with any increase in wages, the expected introduction of casual conversion, increased penalty rates, despite the success of the slowly reducing Sunday penalty rate, the recent increased impost of casual overtime penalties all present difficulties for small independent employers. The prospect of a further wage increase in addition to the 3.4% increase that was awarded in 2017 would seriously damage the ability of many retailers to maintain their businesses and MGA urges the Panel to seriously consider the implications which will inevitably result in store closure and the consequent loss of jobs if a wage increase of more than 1.1% is introduced in 2018.

To ensure job stability, increased workforce participation and the overall performance and competitiveness of the national retail sector, MGA submits that the Panel considers the wide-reaching benefits of the independent supermarket sector.

UNEMPLOYMENT RATES

Unemployment can have a devastating impact on people's lives. It affects not just the unemployed person but also family members and the wider community. Unemployment can be long-lasting and if it becomes protracted, its impact becomes more far reaching. When a worker loses a job it affects their children and their personal prospects and it will impact on living standards. Unemployment is a loss of valuable productive resources to the economy. The effect of job loss in rural and regional areas flows through to the local community, damaging businesses as family expenditure is reduced. Further damage to local communities may result from people leaving their homes in search of work. The higher the number of people participating in the workforce or the more hours worked, the higher the potential output that can be produced. Higher labour force participation can also reduce the financial pressures associated with providing welfare support as well as promoting social inclusion and equity goals. Therefore, it is essential to ensure that any decision by the Panel does not jeopardise the ability of businesses to create jobs.

In early 2018 the unemployment rate remained steady at 5.5 per cent and there were 35000 jobs added in December 2017. In fact, according to Business Reporter Stephen Letts[15]35,000 jobs were added in December well ahead of the forecasted figure of 15, 000. He continued that," the growth was split between 15,100 full time positions and 19,500 part time jobs in December although over the year 300,000 full time jobs have been created compared to 100, 000 extra part time positions". Whilst the figures are promising and encouraging overall the numbers do not necessarily translate into jobs into smaller struggling sectors of industry. Retail positions in smaller businesses are less readily available than in larger retail outlets as the independent supermarket sector is not amongst those who are employing staff at the present time.

There has been a marked transition from full time employment to part time employment demonstrating that there is a considerable number of people looking for additional hours of work. The economy is showing a rise in underemployment leaving millions of people who are working an insufficient number of hours.

Although it is being anticipated that unemployment rates will reduce further it does not necessarily mean that there should be a massive hike in wages growth. The growth in jobs availability will not necessarily mean an increase in wages according to David Scutt in February 2018[16] he quotes Macquarie Bank, "We expect an improvement in Australian average earnings growth from around 0.5% per annum …… firms are expecting wages outcomes from enterprise bargaining agreements to average 2.6% over the next year… with economic growth likely to accelerate a rate hike from the RBA remains a distinct possibility." Unemployment is at a record low and interest rates remain low at 1.5% , but there does not appear to be any strong indicators that a wages hike is likely. Should that remain the case in the immediate future that would be a welcome relief to those small businesses who will not survive a significant wage increase in 2018. MGA submits that a wage increase of no more than 1.1 per cent in

[15] http//www.abc.net.news/2018-01-18/unemployment-december-2017/9338664
[16] http://www.businessinsider.com.au/author/david-scutt Money and Markets (https:/www.businessinsider.com.au/monimarkets

2018 would encourage businesses to strive in their businesses and retain staff than face a down turn in their businesses, with the prospect of not being able to employ staff at all in the foreseeable future.

Although the trend in Australia's unemployment rate remains moderate there remains a significantly high youth unemployment rate. One of the largest sources of employment particularly in rural Australia is for young people to work in the local supermarket. Independent retail stores remain a key entry point for young workers into the labour market and into lasting employment. Any wage increase will place increased limitations on those opportunities as retail employers struggle to maintain wage margins.

A Brotherhood of St Laurence Report [17] maintains a watch on the difficulties faced by young Australians in trying to obtain work in areas drained of employment opportunities. This Report refers to the headlines that state the fall in the unemployment rate in Australia, but points out that the unemployment rate for young Australians is still massively high. The youth unemployment rate is quoted as 12.4% in October 2017 which is more than twice the reported overall unemployment rate of 5.5%.[18]

In many places there are small local supermarkets that struggle to maintain their viability but nevertheless employ young people. Higher wages will make it difficult to help alleviate some of the stress that is being experienced in these regional areas. The difficulty faced by a small retailer wanting to employ a seventeen year old casual supermarket assistant on Sunday is that he will have to pay $23.50 an hour, and on a public holiday that will be $30.13 an hour. A 20 year old who works for more than six months will receive $39.16 an hour on Sunday and on a public holiday will receive $50.20 an hour.

At the present time these rates are making it difficult to employ young Australians and if the rate goes any higher it will become increasingly difficult for the local supermarket owner to sustain.

The Brotherhood of St. Laurence in its many annual reports has stated that "A prolonged period out of the workforce for young individual places them at risk of a life sentence of poverty and exclusion from the mainstream of our society. An adequate living standard depends on having sufficient paid work. Unemployment is the chief cause of relative poverty and social exclusion in Australia. The social consequences of extended joblessness, especially for families, are considerable and well known".[19]

[17] Brotherhood of St Laurence "Reality Bites Australia's Youth Unemployment in a Millenial Era December 2017
[18] Ibid page 02
[19] Brotherhood of St Laurence, *Australian Youth Unemployment 2014: Snapshot*, Melbourne, 2015, p 6

In January 2018 the youth unemployment rate in Queensland was 13.3% with places such as Logan Beaudesert at 17%, Sunshine Coast 11.5% and Brisbane West at 14.7%[20] . Queensland independent retailers have fought for many years to retain trading hours in the early morning when larger stores were closed and after closing times for the bigger chains, but these few hours of trading opportunity have gradually been eroded and they now struggle against the might of their larger rivals. The end result is that the extended trading hours for bigger stores has not meant more jobs availability in fact smaller stores have closed and jobs have disappeared. That means the number of casual employment opportunities decreases and this particularly hits young people. This is another reason why MGA urges the Panel to take account of the impact of a significant wage increase on this sector of industry.

The independent retail sector remains one of the few entry-level job paths for young people, as the economy shifts its focus more on services such as education and knowledge industries including information technology and health care. It is clear that although in 2018 there appears to be a boost in employment figures this does not necessarily mean employment increases in the independent retail industry.

EFFECT OF A SUBSTANTIAL WAGE INCREASE ON INDEPENDENT RETAILERS

In his recent speech to the House of Representatives Standing Committee on Economics, the Governor of the Reserve Bank spoke about world growth and how international trade growth and improvement in commodity prices have assisted the Australian economy. He said, "The stronger economic growth has resulted in unemployment rates falling further. ….. Inflation has remained low, partly reflecting the fact that wage growth has been quite subdued despite the unemployment rate. Low inflation has meant a low interest rate. And for much of the past year, volatility in asset prices was also unusually low" [21]

There is no doubt that big businesses are doing well and that their shareholders are reaping the benefits. Big businesses argue that they cannot increase wages because the market is so competitive. Unfortunately, that doesn't ring true with many economists and there is a push to suggest that wages need to be higher. If profitability is growing strongly then it seems there must be sectors of the economy that can afford to increase wages.

[20] Queensland Government Statisticians Office ABS 6291.0.55.001released 22nd February 2018
[21] Opening Statement to the House of Representatives Standing Committee on Economics – Phillip Lowe Governor of the Reserve Bank of Australia – Sydney 16th February 2018 http/www.rba/gov.au/speeches/2018/sp-gov-2018-02-16html

It seems that wages have increased just 2% on an annual basis. For low to middle income earners that is not easy to accept because the level of household debt is increasing with commodity price rises and the exponential growth in energy costs. Interest rates are still relatively low but there is the potential for an interest hike in the near future. The UK has increased its interest rates and it is expected that other countries will follow suit.

According to Stephen Kinsella[22] when debt levels are high people need more money in their pockets to deal with reducing their debt burdens. He offers some solutions to solve the problem including reducing taxes, together with tax reform, making the cost of living cheaper, or increasing wages and suggests that increasing wages, "is not only feasible and justified, it is in the national interest." Although this may seem that a wage increase is the easiest option to assist with household debt and commodity price increases, Dr. Phillip Lowe believes that wage growth is likely to remain low for some time and more particularly that, "inflation is likely to remain low for some time, reflecting low growth in labour costs and strong competition in retailing. A gradual pickup in inflation is expected as the economy strengthens." [23]

Some pundits believe that an increase in wages is the best solution - but at what cost to small businesses? The larger business will be able to afford a wage hike even though it may be moderate, but consideration must be given to smaller more vulnerable businesses that will not be able to cope with a wage increase of any greater than a very small percentage.

Increased award rates negatively impact on the ability of employers to provide sufficient hours of work. Retail employers often manage increases in award rates of pay by reducing the number of hours offered to their employees, and in many instances they take on that work themselves to mitigate the cost burden.

MGA Research

As part of preparing this submission, MGA conducted extensive research in the form of a survey of its 2,500 members in January to February 2018 to obtain tangible evidence on a range of issues including ascertaining the impact of a wage increase on members' operations, and the impact of the 3.4% in July 2017 on their businesses.

[22] Stephen Kinsella Research fellow School of Government, University of Melbourne " Increasing wages would make the Australian economy safer " Novemeber 16 2017 .
https:// the conversation .com/increasing-wages-would—make -the-australian-economy-safer-87182

[23] Dr Lowe Reserve Bank Governor. March 6th 2018- Interest rates on hold

Approximately 54% of respondents to the survey were small businesses with up to 20 employees, and overall, approximately 91 per cent respondents to the survey were enterprises with 40 or less employees.

The survey was voluntary and conducted anonymously, which strengthened its integrity and allowed for increased honesty in the responses. By way of a summary, the survey produced the following results to questions put to the Respondents:

1. **What impact did the 3.3% July 2017 wage increase have on your business?**
   The increase wage rate of 3.4% had a severe effect on their businesses. Profits were reduced and there was a loss of staff in some cases as high as 48%, particularly with casual staff. There was a serious impact on the ability to provide for any new employment.

2. **What issues affected your business operations during the last 12 months, and if so, to what extent?**
   By far the most severe effect was the cost of energy. with competition and increases in the rates for 20 year old employees also regarded as severe. In some areas where there had been restricted trading hours the extensions of those hours also severe had a severe impact.

3. **If there is an increase in wages in 2018, might you take any of the following steps as a result?**
   Reduced staff numbers, employ junior staff and employ family members and work in the business themselves. A significant number would consider closing the business.

4. **What wage increase, if any, would you find acceptable for your business in 2018?**
   The strong view was that there should be no increase at all on the wage rate in 2018. There was a view that an increase consistent with CPI was an option, or alternatively an increase of 1.1%.

5. **What current economic factors are of concern to you from a business perspective, and to what extent?**
   Sales performance, competition, energy costs, superannuation. red tape, and award changes are having a significant effect on their businesses at the present time.

The ongoing viability and prosperity of businesses, particularly small businesses in award-reliant sectors, must be at the forefront of the Panel's deliberations as it is the employer that must invariably fund any wage increase. With labour market conditions weak and as unemployment levels remain high a greater sense of value must be placed on job creation. Having a higher national minimum wage and award rates in place becomes meaningless if the jobs that pay them disappear and the opportunities for recruitment dry up.

Any wage increase would have a significant impact on a small retailers business.

The following **General Retail Industry Award Wage Comparison** provides examples of the impact on a business that is subject to the General Retail Industry Award and has a full- time employee working at Level 1.

Diagram 1 shows the current Weekly rate and the Ordinary hourly rate of a Level 1 employee employed under the General Retail Industry Award

Diagram 2 shows the effect of a 1.1% increase on an employer with 45 employees

Diagram 3 shows the effect of a 3.4% increase on an employer with 45 employees

General Retail Industry Award Wage Comparison

Diagram 1

Full Time Retail Employee Level 1 – Current rates FY 2017

	Weekly rate	**Ordinary Hourly Rate**
Adult	$763.20	$20.08

Diagram 2

Full Time Retail Employee Level 1 – with 1.1% increase

	Weekly rate	**Ordinary Hourly Rate**
Adult	$771.60	$20.31

Increase of .23 cents per hour on the base rate of .23 cents x 38 hours per week = an additional $8.74 per week or $454.48 per year per employee. If the business has 45 employees, that is an additional **$20,451.60** per year plus on costs, including superannuation and workers compensation.

Diagram 3

Full Time Retail Employee Level 1 – with 3.4% increase

	Weekly rate	**Ordinary Hourly Rate**
Adult	$789.15	$20.77

Increase of .69 cents per hour on the base rate

.69 cents x 38 hours per week = an additional $26.22 per week or $1,363.44 per year per employee

If the business has 45 employees, that is an additional $61,354.80 per year plus on-costs.

If the Panel decides to impose a 1.1% increase Diagram 2 shows that the impact would be severe for a small business and Diagram 3 shows that a a similar increase as 2017 would be disastrous for some small retailers.

Increases in labour costs associated with wage increases in recent years have been borne by small businesses as opposed to their large counterparts (e.g. Coles and Woolworths) whose operations are governed by enterprise agreements with favourable penalty rates. The discriminatory nature of the award modernisation process ultimately exposes the difficulties faced by small businesses and places them at the mercy of the Panel’s wage decision.

The fear of a future wage increase by small independent retailers cannot be underestimated. There is a clear indication in their responses that another increase similar to 2017 would have a disastrous impact on their ability to survive in the industry.

Accordingly, if the Panel does decide to award an increase to the national minimum wage and modern award wages, then it should be modest, and take into account the over-compensation provided in past decisions.

ECONOMIC OUTLOOK FOR THE RETAIL INDUSTRY 2018-2019

MGA’s submission for the Panel to implement a wage increase of no higher than 1.1% is influenced by the uncertainty that Australia and many other countries are facing at the present time.

Despite the expectation that the Australian dollar would fall dramatically this year, it has in fact started to rise. This must be attributed to the changes that are being felt across the international political spectrum. The Australian dollar was expected to dip below 70 US cents but it is currently at 77 cents due in no small way to the impact of the recent economic decisions made by the United States.

Inflation was low in December 2017 and remains around 1.9% over the last year. The low inflation rate according to the Reserve Bank of Australia reflects “weak labour growth, low inflation expectations, heightened competitive pressures in some product markets and low rent inflation due to increases in the stock of housing"[24]. The Reserve Bank of Australia sees inflation expectations remaining low in line with the inflation outcome over the last year.

A number of factors are impacting on the economy at the present time as the United States adopts a policy of protectionism. The European markets are being affected by the decision in Great Britain to exit the European common market and there are a number of other countries in Europe that are also looking to exit the European market. How this will impact on the domestic market is yet to be determined.[25]

The domestic retail sales market remains slow moving. There is increased tourism to Australia and this will no doubt provide some assistance to the markets. Unfortunately, this does not necessarily assist the supermarket industry where the competition remains extremely high. Not only are independent retailers forced to compete against the might of larger stores such as Coles and Woolworths but also the growth of the overseas stores now in the market, namely Aldi. There is also strong speculation that another German based supermarket retailer will enter the Australian market in the near future. Whilst independent retailers remain competitive it makes their ability to cope with increased wages more difficult.

To maintain the expected growth in employment and demand, MGA is proposing a modest increase in the minimum wage to allow businesses to continue to confidently engage new staff. Past significant wage increases have created uncertainty in the retail sector and employers remain cautious following previous increases to wage rates, 20- year old rates and apprentice rates.

MGA submits that there are considerable challenges facing retailers and seeks that a degree of caution be exercised in respect of increasing wages for the next financial year. The impact of higher wages in one of the most important sectors of the economy has the potential to have a detrimental effect on Australia's improving financial conditions including the projected rates of employment. Therefore MGA wishes to reiterate that a modest increase of 1.1 per cent will help protect the gains in the Australian economy while ensuring job security and growth within the sector.

[24] Reserve Bank of Australia Statement on Monetary policy February 2017 page 51
[25] Ibid page 60

CONCLUSION

Independent supermarkets have been challenged throughout the 2017-2018 financial year with increasingly unfair competition within the industry. Our members have worked tirelessly to cope with the challenges of award changes including the introduction of overtime rates for casuals and the prospect of casual conversion to permanent status which is likely to be effective later this year.

Our members' stores have also remained the point of entry into employment for countless employees across Australia, including in those areas around Australia that see exceptionally high youth unemployment. The majority of independent supermarkets and liquor stores and hardware stores that make up our members are small businesses and mainly employ staff under the Award. Therefore. they are more susceptible to the economic pressures that flow from increases to the national minimum wage. Any increase to the national minimum wage will impact our members and detrimentally affect the industry and its employees.

In light of previous wage increases, MGA members have already engaged in various practices in an effort to cope with the rising costs of operating their business, including staff reductions, reducing employment hours and/or seeking to employ only junior staff. However these cost saving efforts are not sustainable.

MGA urges the Panel to consider these factors and not award an increase to wages in 2018 in excess of 1.1%, so as to allow independent supermarkets, liquor and hardware stores to remain viable and serve as a staple source of employment in Australia.

MGA sincerely thanks the Fair Work Commission for this opportunity to make a submission to the Minimum Wage Panel for the purposes of the Annual Wage Review 2017-18.

Jos de Bruin
CEO
MGA Independent Retailers / Master Grocers Australia
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