



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Reference: A new tax system

THURSDAY, 18 MARCH 1999

MELBOURNE

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SENATE
SELECT COMMITTEE ON A NEW TAX SYSTEM
Thursday, 18 March 1999

Members: Senator Cook (*Chair*), Senator Ferguson (*Deputy Chair*), Senators Conroy, Gibson, Murray, O'Chee and Sherry

Substitute members: Senator Chapman for Senator O'Chee, Senator Watson for Senator Ferguson and Senator George Campbell for Senator Sherry

Participating members: Senators Brown, Colston, Harradine and Margetts

Senators in attendance: Senators George Campbell, Chapman, Cook, Conroy, Gibson, Harradine, Murray and Watson

Terms of reference for the inquiry:

- (1) That a select committee, to be known as the Select Committee on a New Tax System, be established to inquire into and report, on or before 18 February 1999, on the economic theories, assumptions, calculations, projections, estimates and modelling which underpinned the Government's proposals for taxation reform, contained in *Tax reform: not a new tax, a new tax system*.
- (2) That, in conducting its inquiry, the committee examine the following matters:
 - (a) the estimated levels of revenue to be generated or foregone due to the proposed changes, including the estimated level of revenue to be generated by imposing a goods and services tax (GST) on the basic necessities of life (such as food, clothing, shelter and essential services) and books;
 - (b) the effects of the proposed changes on:
 - (i) national Gross Domestic Product,
 - (ii) national export performance and national debt,
 - (iii) the national Consumer Price Index, and
 - (iv) the distribution of wealth in the Australian community;
 - (c) the effects of the package on future federal budget revenues, expenditures and surpluses, including a critical assessment of the economic assumptions underpinning the Treasury's projections in this regard;

- (d) the effects of the taxation and compensation package on disposable income and household spending power for a range of 'cameo profiles', including but not limited to those presented in the proposals, under the following scenarios:
 - (i) a GST extended to the necessities of life (such as food, clothing, shelter and essential services), and
 - (ii) a GST not extended to the necessities of life (such as food, clothing, shelter and essential services);
 - (e) with the aim of identifying families and groups who may be disadvantaged by the Government's proposals, focusing on lower and fixed income individuals, families with dependent children or adult members, groups and organisations, and those with special needs, such as people with disabilities;
 - (f) the assumptions made as to consumption and saving patterns and the cost of living for the various 'cameo profiles';
 - (g) whether the stated objectives of the package can be met by using an alternative and fairer approach; and
 - (h) such other matters as the committee considers fall within the scope of this inquiry.
- (3) That the committee also inquire into and report, on or before 19 April 1999, on the broad economic effects of the Government's taxation reform legislation proposals with regard to the fairness of the tax system, the living standards of Australian households (especially those on low incomes), the efficiency of the economy, and future public revenues, including:
- (a) the effects on equity, efficiency and compliance costs of including, or not including, food or other necessities of life in the GST, together with any related adjustments to the package if food or other necessities of life were GST zero-rated;
 - (b) the effectiveness of the package in easing the poverty traps facing people on low incomes, and reforming and streamlining tax and income support for families with children, taking into account the static and life-cycle impacts on families with children;
 - (c) options for amending the income tax schedule to make it more equitable;
 - (d) the findings of the Tax Consultative Committee chaired by David Vos;
 - (e) options for improving the effectiveness and fairness of the tax system and reducing inequitable or unreasonable tax avoidance and minimisation, including consideration of alternative areas for tax generation, either where there are current tax concessions or where Australia's taxation system does not address major tax potential, and without limiting the foregoing, the consideration of taxation of foreign companies operating in Australia, including the relative merits of resource rent taxes, royalties or land taxes as compared to company tax in securing a fair compensation to Australia for use of its resources, whether the 150% tax concession for research and development should be restored and whether small companies should be allowed to be taxed as partnerships.
 - (f) the potential for tax avoidance and evasion, including an examination of the effects on the cash economy, and the potential impact of electronic commerce on the future viability of a

GST;

- (g) the effects on compliance costs;
- (h) the potential for reducing payroll tax, including by providing incentives to create long-term employment and by replacing payroll tax with a carbon tax;
- (i) whether there are other means available for rebating or reducing the indirect taxes or excessive user charges embedded in exporters costs;
- (j) excises, including those on fuel, tobacco and alcohol - identifying the industries which benefit, and to what extent, from the proposed changes to taxes on fuels;
- (k) the effects on interest rates;
- (l) the effects on investment, in both physical and human capital formation;
- (m) the effects on small business;
- (n) the effects on the non-profit sector, including the total amounts of money contributed by the sector, administrative costs, impacts on the viability of the organisations, and the consequent effects on the wellbeing of the community;
- (o) the effects of the GST on particular industries, including:
 - (i) key service industries such as tourism,
 - (ii) the Australian automobile and related industries, having particular regard to the effects of changes to fuel excises,
 - (iii) other 'invisible' export industries, such as education and financial services, and
 - (iv) the international competitiveness generally of Australian industries;
- (p) the implications of not requiring that the GST component of goods and services be itemised on receipts;
- (q) the effects of the taxation reform legislation proposals on rural and regional stakeholders, including:
 - (i) the effects on particular regions,
 - (ii) the effects on rural and regional communities of different tax regimes on fuel - especially the cost of transport of goods to rural communities,
 - (iii) the effects on primary industry of replacing the current sales tax exemption on agricultural machinery with a GST, and
 - (iv) the effects of imposing a GST on food and other necessities of life on remote communities, including Aboriginal and Islander communities;
- (r) the effects of the Government's taxation reform legislation proposals on state and local government administration, including:
 - (i) the effects of the package on future federal-state financial relations and the capacities of state and local governments to adequately finance their respective responsibilities in both the short-term and the long-term, including the effects of the proposed transfer of responsibility for local government financial assistance to the states, and whether it discriminates between states,

- (ii) the implications for specific purpose programs,
 - (iii) mechanisms required to lock in commitments made by federal and state governments with regard to the new arrangements,
 - (iv) the implications for future federal-state financial relations of not extending the GST to the necessities of life (such as food, clothing, shelter and essential services) and books, and any adjustments to the proposed arrangements which would be required to federal-state financial relations,
 - (v) the implications of the package for the quality and affordability of public utility services and for the public utility concessions for social security recipients,
 - (vi) the effects of application of the GST, and of changes to tax status, on local government and its activities, particularly commercial activities,
 - (vii) the implications for the delivery of Commonwealth Government services, including employment services, welfare and other social and cultural services, and
 - (viii) the extent to which the proposed compensation arrangements are secure from change to below adequate levels;
- (s) the adequacy of measures to ensure that consumers fully benefit from the abolition of existing taxes;
- (t) the effects of the taxation reform legislation proposals on legal and constitutional matters, including:
- (i) the constitutionality of the proposed mechanism for future changes to the GST, including whether such changes would present a significant hurdle to future increases, or reductions if deemed necessary to stimulate the economy,
 - (ii) the constitutionality of the proposed reorganisation of federal-state tax arrangements and whether the powers and functions of states and territories are materially affected by this reorganisation, and
 - (iii) the effects of the proposals on the cost of access to justice; and
- (u) options for amending the proposed legislation to improve its fairness or efficiency.
- (4) That, in reporting on the matters referred to in paragraph (3), the committee have regard to the reports of the references committees referred to in paragraph (17) and integrate the findings of those committees into its final report where relevant.
- (5) That the committee consist of 7 senators, 3 nominated by the Leader of the Government in the Senate, 3 nominated by the Leader of the Opposition in the Senate, and 1 nominated by the Leader of the Australian Democrats.
- (6) That the committee may proceed to the dispatch of business notwithstanding that not all members have been duly nominated and appointed and notwithstanding any vacancy.
- (7) That:
- (a) senators may be appointed to the committee as substitutes for members of the committee in respect of particular matters before the committee;
 - (b) on the nominations of the Greens or independent senators, participating members may be appointed to the committee; and
 - (c) participating members may participate in hearings of evidence and deliberations of the committee, and have all the rights of members of the committee, but may not vote on any

questions before the committee.

- (8) That the committee shall elect as its chair a member nominated by the Leader of the Opposition in the Senate.
- (9) That the committee shall elect as its deputy chair, immediately after the election of the chair, a member nominated by the Leader of the Government in the Senate.
- (10) That the deputy chair act as chair when there is no chair or the chair is not present at a meeting.
- (11) That the committee have power to send for and examine persons and documents, to move from place to place, to sit in public or in private, notwithstanding any prorogation of the Parliament or dissolution of the House of Representatives, and have leave to report from time to time its proceedings and the evidence taken and such interim recommendations as it may deem fit.
- (12) The quorum of the committee shall be a majority of the members of the committee.
- (13) The committee set 29 January 1999 as the date for receipt of submissions.
- (14) That the committee hold hearings in each state and territory as required.
- (15) That the committee be provided with all necessary staff, facilities and resources and be empowered to appoint persons with specialist knowledge for the purposes of the committee with the approval of the President.
- (16) That the committee be empowered to print from day to day such documents and evidence as may be ordered by it and a daily Hansard be published of such proceedings as take place in public.
- (17) That the following matters be referred to references committees in accordance with the schedule below for inquiry and report by 31 March 1999, and that in undertaking these inquiries the committees have regard to the report of the Select Committee referred to in paragraph (1) and consult widely, holding hearings in each state and territory, as required. Submissions to these inquiries are to be made by 29 January 1999.

Committee	Matters for Inquiry
Community Affairs	<p>The impacts of the Government's taxation reform legislation proposals on the living standards of Australian households (especially those on low incomes), including:</p> <p>(a) the scope and effectiveness of the proposed arrangements on charities, child care services, aged care services, welfare services, local government human services and all not-for-profit organisations in maintaining the quality and affordability of essential community services, including the implications for the public funding of these services and the implications for the commercial activities of these organisations, and whether unconditional GST-free status should apply to <i>bona fide</i> charities;</p>

	<ul style="list-style-type: none"> (b) a detailed examination of the zero-rating of health services, including an examination of which services should be zero-rated; (c) the effects on community sector organisations of changes to their tax exempt status, and of the compliance costs of the proposed tax arrangements; (d) the effects of the proposed private health insurance rebate; (e) the effects on people with disabilities; (f) the effects on public, community and private housing, including the levels of rents; and (g) options for amendments to improve the fairness or efficiency of the proposed legislation.
<p>Employment, Workplace Relations, Small Business and Education</p>	<p>The employment incentive and education impacts of the Government's taxation reform legislation proposals, including:</p> <ul style="list-style-type: none"> (a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability; (b) the effects on employment; (c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services; (d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources; (e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students; (f) the effects of the proposed changes to the tax system on employment; (g) the effects on wage costs, particularly if the basic necessities of life are taxed; (h) the scope and effectiveness of changing the unemployment benefits, pensions and Newstart Allowance 'tapers'; (i) the effects of the proposed changes to the tax system on training and adult education; and (j) options for amendments to improve the fairness or efficiency of the proposed legislation.

Environment,
Communications,
Information Tech-
nology and the
Arts

The broad effects of the Government's taxation reform legislation proposals on the environment, the arts and information technology, including:

- (a) the environmental effects, and likely impacts of changes to fuel excises, particularly but not only diesel, and the replacement of WST with GST on vehicles and other transport services including:
 - (i) possible increases in greenhouse gas emissions,
 - (ii) increases by amount and type of air pollution,
 - (iii) the effects on public and rail transport,
 - (iv) the effects on alternative energy use in transport including, but not limited to, compressed natural gas,
 - (v) the changed effects on native forests of logging or woodchipping due to the tax package, and
 - (vi) the changed effects of mining in environmentally sensitive areas due to the tax package;
- (b) the environmental effects of the replacement of Wholesale Sales Tax by the GST and associated changes in fuel excises on electricity and natural gas;
- (c) the impacts of the proposed tax changes on the prices and existing and potential use of renewable energy particularly but not only solar energy technology and energy efficiency equipment;
- (d) the environmental effects of any changes to taxes on exports;
- (e) the consistency or otherwise of the proposed changes in taxation and excise arrangements with Australia's international treaty obligations, including its obligations under the Framework Convention on Climate Change;
- (f) options for a tax system which better achieve environmental objectives, including incentives for fuel efficiency and alternative energy sources, such as measures which promote both environmental protection and employment generation;
- (g) the extent to which environmental impacts were considered in the drafting and final copy of the Government's tax package;
- (h) the scope of any consultation on environmental matters with experts in Environment Australia or any other Government departments other than the Treasury and Finance departments;
- (i) the impact of a GST on ticket sales for the performing arts;
- (j) the effects of a GST on the transfer of grant monies for arts projects;

- (k) the effects of the tax proposals on sponsorship provided by the private sector to individual artists and arts organisations;
- (l) the extent to which the package will block consideration and introduction of 'ecotaxes';
- (m) the effects of a GST on not-for-profit conservation and arts organisations; and
- (n) options for improving the environmental effects of the package.

- (18) That the provisions of the bills implementing the proposed new tax system stand referred to the previously mentioned committees for inquiry and report in conjunction with the terms of reference authorised by this resolution, as soon as the bills have been introduced in the House of Representatives.
- (19) That when the bills referred to in paragraph (18) are first introduced in the Senate and a motion is moved for the second reading of the bills, debate on that motion shall be adjourned at the conclusion of the speech of the senator moving the motion and resumption of the debate shall be made an order of the day for 19 April 1999 without any question being put.

WITNESSES

AYRES-WEARNE, Ms Valerie Elizabeth, Social Policy-Research Worker, Good Shepherd Youth and Family Service	2083
CADDY, Father Joseph John, Associate Director, Community Development, Catholic Social Services (Melbourne)	2083
CHARLES, Dr David Thomas, Director, Allen Consulting Group	2020
CRAWSHAW, Ms Josephine, Commissioner, Northern Territory North Zone, Aboriginal and Torres Strait Islander Commission	2020
CROSBIE, Mr David William, Chief Executive Officer, Alcohol and other Drugs Council of Australia	2075
DUNCAN, Reverend Dr Bruce Frederick, Research Officer, Catholic Social Services (Melbourne)	2083
FIREK, Mr Marcin, Executive Director, Baking Industry Association (NSW Employers), and Bread Manufacturers Industrial Association of Australia ...	2063
HALL, Ms Louise, Manager, Economic Policy Section, Aboriginal and Torres Strait Islander Commission	2020
JACK, Mr Tony, Chairman, Garrak-Jarru Regional Council, Aboriginal and Torres Strait Islander Commission	2020
JUKES, Ms Janet, Coordinating Committee Member, Federation of Community Legal Centres (Victoria)	2051

McCARTIN, Mr Damien Laurence, Social Policy and Planning Worker, Good Shepherd Youth and Family Service	2083
McINTOSH, Mr John Lauchlan, Executive Director, Australian Automobile Association	2035
METCALFE, Mr John, Assistant Director, Australian Automobile Association ..	2035
OGDEN, Dr Kenneth Wade, Group Manager, Public Policy, Royal Automobile Club of Victoria Ltd	2035
PROSSER, Mr Bryce David, Senior Economist, Public Policy Group, Royal Automobile Club of Victoria Ltd	2035
SCHETZER, Mr Louis Anthony, Policy Officer, Federation of Community Legal Services (Victoria)	2051
SIEMON, Mr Donald McIver, Acting Director, Social Action and Research, Brotherhood of St Laurence	2083

Committee met at 9.02 a.m.

CHAIR—Can I indicate for the *Hansard* record that Senator George Campbell will replace Senator Stephen Conroy for this session from the Labor group of senators on this inquiry.

Today the committee continues its inquiry into the proposed changes to the Australian taxation system. The Senate referred the inquiry to the committee on 25 November last year. This hearing relates to the second stage of the inquiry. In this stage, the committee is examining the broad economic effects of the government's taxation reform legislation proposals. It will have regard to the fairness of the tax system, the living standards of Australian households, especially those on low incomes, the efficiency of the economy and future public revenues.

The committee will report on the second stage of its inquiry by 19 April 1999. This committee called for submissions to be lodged by 29 January 1999. In fact the committee is still accepting submissions and so far has received almost 1,400.

This is the fourth public hearing to be held by the committee in Melbourne in the course of this inquiry. In addition to this hearing, the committee will be conducting further public hearings around Australia.

The committee has released the submissions relating to stage 1 of the inquiry and submissions of those witnesses who gave evidence at earlier hearings. The committee does not intend to release all of the remaining submissions as yet, except for the submissions made by those witnesses who are giving evidence today. Is it the wish of the committee that submissions 801, 1,076, 1,345, 448, 923, 848, 929, 619 and 696 be made public? There being no objection, it is so ordered. I therefore now declare that those submissions to this inquiry, together with their attachments, may be released.

For the record, this is a public hearing and, as such, members of the public are welcome to attend. Before we commence taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Parliamentary privilege means special rights and immunities attached to the parliament or its members and others necessary for the discharge of the functions of the parliament without obstruction and without fear of prosecution. Any act by any person who operates to the disadvantage of a witness on account of evidence given by him or her before the Senate or any committee of the Senate is treated as a breach of privilege.

[9.05 a.m.]

CHARLES, Dr David Thomas, Director, Allen Consulting Group

**CRAWSHAW, Ms Josephine, Commissioner, Northern Territory North Zone,
Aboriginal and Torres Strait Islander Commission**

**HALL, Ms Louise, Manager, Economic Policy Section, Aboriginal and Torres Strait
Islander Commission**

**JACK, Mr Tony, Chairman, Garrak-Jarru Regional Council, Aboriginal and Torres
Strait Islander Commission**

CHAIR—I welcome representatives of the Aboriginal and Torres Strait Islander Commission. For the *Hansard* record, I invite whoever is going to lead on your behalf to introduce his or her self and then, if you would not mind, introduce your colleagues who are appearing with you. The standard format is that we will invite you to address us in summary of your submission and then, if you would be kind enough, be available to take questions from our committee.

Ms Crawshaw—Thank you for the opportunity to present ATSIC's view at this hearing. You have already received the ATSIC submission. We would like to begin this presentation with a short video produced by ATSIC to support our submission. The video runs for 11 minutes. After the video, I will make the opening statement and then ask Dr Charles and Mr Jack to make some comments before we take your questions, if that is fine and okay by yourselves.

CHAIR—It is okay by us. I just note that we are very keen to allow as much time for the committee to ask questions as possible.

A video was then shown—

CHAIR—Please proceed.

Ms Crawshaw—In our submission we have concentrated on the effects of the proposed GST and other measures on rural and remote indigenous communities. Unfortunately, we did not have the time to also canvass the effects on the urban indigenous people. It is likely that the effects on urban indigenous people will be similar to the effects on low income earners in the wider community. The implications for low income earners have been well represented by organisations such as ACOSS and the Pensioners Association. We will review their submission with close interest.

In the meantime it is appropriate for ATSIC to focus on the unique circumstances faced by remote indigenous communities. We believe no-one else has looked closely at the implications for our people living in those circumstances and this includes the architects of the proposed tax package.

There are over 100,000 Aboriginal and Torres Strait Islander people living in rural and remote parts of this country. These people are the most disadvantaged in our entire society. Where they live there are very few job opportunities and not many opportunities to have viable businesses. Their main source of income is either social security or CDEP, the original Work for the Dole program.

In communities where there is a small business, such as arts and crafts, the high cost of transporting their products to the towns or cities can make the final cost unattractive to retailers. Remoteness also means that the cost of bringing fresh food in to the communities is very high. As you saw in the video, in Northern Australia fresh foods must be flown in to the communities by aeroplane, particularly in the wet season. In most areas there is only one transport company. The communities have to pay whatever prices they charge or they get no food. Prices in many areas are a lot higher than what you would pay in Melbourne or Perth, or even Darwin.

The Kimberley Health Unit in Western Australia have surveyed prices every year for the last 12 years. They found that a basket of food—specific to what Aboriginal people in the Kimberley buy—costs between 54 per cent and 60 per cent more in Warburton than in Perth. Similar price differentials also apply between Darwin and remote Aboriginal communities in the Northern Territory. The Food and Nutrition Unit of the Territory Health Services found that the cost of a family basket purchased in East Arnhem Land stores is 74.4 per cent higher than the cost of the same basket if purchased in capital cities.

I have done my own mini-survey of a few staple items for the purposes of today's hearing. I was not able to actually find a price here in Melbourne for a 15-pack of disposable nappies. In Darwin it costs around \$4.60. In Bulman, where you saw the river running right through, it is \$12.20 and in Aputula, in the centre of Australia, it is \$17.50. In remote areas you go through a lot of disposable nappies because there is not water to spare to wash cloth nappies. For example, most of our communities do not have whitegoods such as washing machines, stoves or fridges. So disposable nappies have really been the only way that a lot of our children are actually clothed.

In Melbourne this packet of tea costs \$2.40. In Darwin, it actually costs \$2.40. In Bulman it costs \$4.05. This lettuce cost \$1.68 here in Melbourne. It costs \$2.00 in Darwin and \$4.30 in Maningrida. So, of course, a GST on top of these food prices will mean that indigenous people in those communities will pay a relatively higher tax than those on the same income levels in the cities. Even though fast food will also attract 10 per cent, it will still end up vastly cheaper to feed hungry children with takeaways than to cook a meal with expensive fresh ingredients.

Consider, also, the community organisations that provide services such as housing or health. Because they cannot pass on all the price increases they must bear the additional costs and very likely must reduce their services. This, too, has implications for community health. ATSIC believes that the government's estimates of the impact of its tax package on inflation are excessively conservative. However, we have used those estimates in our analysis. If a more realistic inflation estimate was used, the recommended changes would be significantly higher.

In summary, ATSIC believes that the tax reform will: increase hardship; substantially add more to the cost of living than the 1.9 per cent calculated by the government; have minimal benefits, at best, on real income; be counterproductive to economic development, with potential disincentive effects on business and employment; and reduce the ability of community organisations to provide services.

Therefore, ATSIC makes the following recommendations: Recommendation 1: the government ensures that indigenous people living in rural and remote communities are not severely disadvantaged by exempting food from GST or, at a minimum, increasing the level of compensation provided to rural and remote communities from the proposed rate of four per cent to 7.9 per cent.

Recommendation 2: we would like to see the government introduce additional measures to stimulate economic activities in rural and remote communities. Measures could include: the Canadian model for tax exemption for indigenous owned businesses located on community owned inalienable land; subsidies for the capital costs of setting up businesses; a greater rate of allowable depreciation on capital items for indigenous owned businesses; assistance to identify business opportunities; assistance with skills development and capital to take up those opportunities; and provision of adequate infrastructure to reduce production and supply costs.

Recommendation 3: the government establishes a targeted program to assist indigenous businesses meet the start up and ongoing needs and costs of being GST collectors. Recommendation 4: increased funding to community organisations to compensate for the increasing costs. The additional funding is needed to avoid a reduction in the level of services and an increase in the disadvantages already suffered by indigenous people in rural and remote areas.

Recommendation 5: we would like to see the extension of the transport fuel credit for registered businesses to air transport businesses involved in transporting essential perishable food items to remote regions. Recommendation 6: we would like to see the government use existing monitoring mechanisms to ensure that any reduction in fuel prices as a result of the fuel credit is passed on to indigenous consumers.

In closing, I want to add a personal note. Frankly, I find the implications of a GST and other proposed tax amendments terrifying. Our people are barely hanging on as it is. Our communities are treading water to survive. The new tax system will potentially take us over the edge and reverse any advances in living conditions that we have achieved in the past few years. I can understand that the architects of the new system were more concerned with reconciling the needs of major businesses with tax collection. But these concerns do not apply in remote indigenous communities. Our needs have not been considered in any assessment from the government or any of the advocates of tax reform. Very few of our people enjoy substantial incomes, so a reduced income tax burden is irrelevant. Tax credits will have little meaning. I hope Dr Charles can deal with this issue during his remarks.

The current proposals offer no income benefits while adding new costs to every grocery item and to every maintenance service. Big retailers can take the complex tax gathering procedures in their stride, but community stores and small community organisations,

managed by one or two people with limited bookkeeping assistance, will need to divert time and energy from their other activities to meet the new demands.

I believe the answer will have to be in the compensation measures provided by the government. They must be specialised and flexible enough to deal with the unique circumstances in remote indigenous communities. ATSIIC urges this committee to recognise the hardship faced by indigenous communities and the precarious knife-edge existence we currently live in your recommendations. Without that recognition, and without a suitable, tailored package of compensation measures, the proposed GST package will not be tax reform—it will be a tax on our survival. I would like to now ask Dr Charles from the Allen Consulting Group to make a few comments.

Dr Charles—Thank you, Commissioner. Let me make some fairly brief comments in support of the submissions that have been put and the study that we conducted on behalf of ATSIIC. The starting point for my comments is the fact that there is a lack of household expenditure data dealing with Aboriginal communities. There is no separate code in the ABS statistics for these people which meant that, while a lot of people had previously done studies in this area, unfortunately the information was based more on anecdotal evidence rather than on some numbers. Our first objective was to fill the gap in the database and, together with the help of ATSIIC and people in the communities, we constructed a questionnaire designed to get a better handle on what is the expenditure pattern of people in the communities.

Perhaps, as this video very well illustrates and as the commissioner has said, not surprisingly they have an expenditure pattern vastly different from the expenditure pattern you would expect to find for people in the major capital cities of Australia. As one of the people in the video made the point: expenditure on food in some of the communities can be over 50 per cent. We found a range of expenditure on food between about 35 per cent and 55 per cent. The reasons for this are very clear. It has to do with the levels of income, the remoteness of the locations, and the very high differential in prices between prices in the capital cities and prices in the remote locations. The number we settled on there for expenditure share spent on food, 39 per cent, is a pretty conservative kind of number. Nevertheless, it is very different from the sort of number you find with, say, the lowest quintile of household items in the household expenditure survey.

So when you look at taking the government's and Treasury's taxation calculations as a basis—which is, of course, a conservative basis—we estimate through our calculations, which are presented in the paper, that the cost impact of the tax package for GST plus the removal of the wholesale sales tax and a whole bunch of other actions, instead of raising the cost of living for people in these remote communities by 1.9 per cent, will, in fact, raise it more like 3.7 per cent. We think that even that number we have come up with—3.7 per cent—is probably on the conservative side for two reasons, firstly, as I said, because of the basic numbers which we use. It may be for food, for example—and we did a little sensitivity analysis in the paper. If the price of food went up, say, 25 per cent more than was calculated by the tax numbers, that would then mean that the cost impact would be well over four per cent rather than 1.9 per cent.

As we can see from the material that is being presented, there is really little margin for error out there in these communities. They do not have the income sources from other places to have any kind of slack. Because of the way in which income comes into these communities, they are substantially not benefited by the other elements of the tax package in terms of income tax and tax reductions. So the income levels are coming very much through welfare payments, through the CDEP and other such programs. We therefore think that the key issue here, as the commissioner has said, is very much in question and that the compensation package has been put together with almost a 'one shoe fits all' kind of approach.

The situation that we find through our survey, and repeated through the material in the video and elsewhere, is that the expenditure patterns we are dealing with in the remote communities are really distinctly different. They are specially different and, if you like, a long way from the normal curve of where the main part of the community is. This means that the compensation package which has been designed to look after the great bulk of the community is just not relevant to the Aboriginal communities.

We therefore propose two approaches to looking at that. One would try and retain the absolute position of the communities, and the other would retain the relative position of the communities. The submission from ATSIIC has picked up on the second basis which I think is necessary to restore the relative position. Thank you.

Mr Jack—Thank you, Mr Chairman and committee members. I just want to give a bit of a brief on how hard it is on the ground level for people living in remote communities.

We Aboriginal people, especially in remote and rural communities, are struggling out there—battling. People live from pay to pay. They have got to feed themselves and their family in that period between two pays just on CDEP itself. A single person gets about \$380 a fortnight. They have got to spend that on food and clothing. When you live in a remote community you have got the trouble of getting into town and back—the nearest major community is about 150 kilometres—with the fuel price and all that. With your \$300 you have got to get into town to pick up your supply and all that.

One of my cousins raised with me a concern on how you live on CDEP. He buys all the food and clothing for his family and then he has to buy parts for his car to get in and out of town. Just one tyre in that area is about \$180 for a four-wheel drive Land Cruiser. Then you have got to put a tube in that tyre. They are nearly \$20—\$19 all up—just for one tube. Then you have got to get fuel to put in the car to get back home. So you may be buying four tyres, just on CDEP of \$380, so that you can get access into town and back.

It is hard living in a remote community, especially at wet times when it gets even harder. We have got to put more pressure on the store and on the health service. Again it depends on how you are going to get in and out because in the wet times all the airstrips are flooded and it is too wet for an aeroplane to land.

Before the wet we would get in bulk food. Just before it starts to rain and all the creeks start to run we try and get in three months worth of supplies. As soon as the wet comes we have got everything in there in bulk; we just get in all the perishables through the wet, when

we can, by air. That is where the costs really come in and prices go up because of the weather conditions.

In my own community we are about a 20-minute flight from the nearest town, Borroloola, and it costs around \$240 just to get a charter. And in the wet times that goes up because of weather conditions and all that sort of thing. It is really hard for us. People living in remote communities are going to be really hit hard on food.

Again, for building, which is what we are trying to do, we need building materials. Our community is really involved. Even trying to get a truck of material during the dry period out from Darwin costs between three and four grand for one trip. That is getting everything again in bulk. When you are building about three to five houses you try to get everything on this truck without missing out the screws or the paint, otherwise you are going to go through the same process again. You are going to have to go back and you put more pressure on yourself.

It is really hard for us living in remote communities. Aboriginal people will not be able to survive if the GST goes ahead unless there are some changes. One of the things my cousin raised with me about the CDEP is whether the government is going to increase our CDEP to a level that we can afford and be able to live. At the moment it is too hard. We are living from pay to pay on that \$380. We cannot go on living on that if the GST is introduced. They are asking questions on that one.

CHAIR—Have you put your concerns directly to the government and, if so, what have they said?

Ms Crawshaw—This submission was mainly to this committee. We are releasing the video and the submission to our minister at the same time. However, he has seen our first report that we did when the GST was first announced. We brought one out around September by Professor Owen Stanley. That was to get a real general feel, before there was even really much detail, of what the government was proposing in the tax. At that stage, we had it on the Internet and we were ordered by our minister, Senator Herron, to have it removed. He felt that the issue that we have not taken up is the reduction in the diesel. He felt that our submission did not look at that. We have been on quite a few interviews since then. I know I and the minister have debated this in the media a couple of times. He does have that submission now.

We have since had two other economist companies engaged and, finally, Dr Charles's company, Allen Consulting Group. In our last recommendation we are asking for the consumer affairs organisation to monitor and that, if there are any savings, they are actually passed on to the consumer. We doubt very much whether that will work because it has never worked in the pricing of the food stores in our communities.

CHAIR—Can I interrupt you for a minute, Ms Crawshaw. My question is just this: we are a house of review and you have made, in my judgment, quite a powerful case today. If that case has been put to the government and the government have rejected it, that puts us in a position of reviewing their decision. My question was to elicit whether or not it has been

put and what their answer has been. Have they in fact rejected it? Are we therefore in a position of reviewing it?

Ms Hall—We have provided our minister with the submission and all the accompanying papers. Our minister is very aware of the position. In fact, he actually quoted that at the Senate on Wednesday, 17 February, according to *Hansard*. Our minister has known what we have said and what we are saying.

CHAIR—Has the government replied to your recommendations?

Ms Hall—No.

Senator GIBSON—Thank you for the excellent presentation. I have had the advantage of visiting a few remote communities, so I understand a little of what you are saying.

Dr Charles, I will just ask a couple of questions about your survey. I take your point about the HES data not being available for remote communities and that you have done some surveys with ATSI. This committee took evidence from several economists a few months ago with regard to the HES data. Most of the economists made the point to us that you have to be very careful in interpreting HES data because it is well known that, in doing household surveys, people tend to underreport some things and overreport others. For instance, expenditure on alcohol and cigarettes tends to be underreported generally. The people who work with the HES data take that into account and modify those results. I assume you are aware of that. Was that taken into account in producing your results?

Dr Charles—The questionnaire that we put is in the back of the report which I assume you have there. There is a line item on the matter you have raised. As far as our survey was concerned, we sought to elicit information on a complete range of expenditure. We did not exclude anything from the expenditure base. The thing that really comes through, just to emphasise the position we are putting, is that the expenditure pattern which emerges from the communities is of a distinctly different pattern to the pattern you would see from the household survey across Australia generally.

There have been a series of studies done by a lot of very worthy people making pretty much that point. But this is really the first time, that I am aware of, that anybody has gone into the field and tried to put some numbers down. These are a reasonably robust set of numbers, but we all understand that, without the facilities of the ABS to go around and knock on every door and chase down every possibility, these are as good as we could do in the time that was available to us. These are pretty robust numbers and the results that we are producing are very consistent with the findings of other professional studies.

Senator GIBSON—Sure, but I get back to the key point I am just asking about: the tendency for people to underreport certain expenditures. Was that not taken into account in interpreting the data?

Ms Hall—The survey we asked people to do was actually done by the people in the remote communities. We did not do it ourselves. I do not think the people who answered the

surveys or the people who collected the data could do anything but just report, because I do not think that they had the qualifications or the experience to do anything else.

Senator GIBSON—Sorry, I am not being critical.

Ms Hall—No, that is what I am saying. The figures were just what people told us.

Senator GIBSON—I understand that. I want to make the point to Dr Charles that several professional economists, such as Professor Neil Warren, came and talked to us about the interpretation of HES data. They made the point that the raw HES data has to be altered in order to make valid interpretations of what is going on between various groups of households because of this well-known fact that people tend to underreport certain expenditures. That is the point I was just making.

Dr Charles—Just to go back to that, we are not relying here on the household expenditure data, unfortunately.

Senator GIBSON—I know that.

Dr Charles—I am aware of the issue that Neil Warren and others have raised. That is an issue I am sure you have been through very thoroughly with them. We constructed our own survey and, as Louise is pointing out, it was done to the best of our capabilities.

Senator GIBSON—No, I am not being critical of that. From your own evidence using, if you like, the assumptions you have used with regard to increases in expenditure, you have come up with an estimate of 3.7 per cent.

Dr Charles—Yes.

Senator GIBSON—I just want to make the point that, in common with other groups that have come before us—for instance, ACOSS—the 3.7 per cent is still less than the four per cent which the government has committed in the ANTS package, isn't it?

Dr Charles—Yes it is, but there are two or three points I made that relate precisely to that point. Firstly, we did this on about the most conservative basis we could possibly do it on in order to show that there was a very distinct difference between the expenditure patterns of the communities and the community generally, and I think that stands out and is very clear. As we point out in the paper—and to some extent we are playing a numbers game here—the numbers are very sensitive to relatively small changes in the underlying parameters.

If you take the view—which I think is very properly based—that, given the particular nature of the transport costs involved in food in the communities and also the lack of competition in the marketplace and other things, there is manifestly a very substantial price differential between the cities and out in the communities, and if you were then to take the view that, instead of the price of food increasing out in the communities in the same way as it increases proportionately in the cities, it increased, let us say, 25 per cent more, the cost of living figure we estimate then goes over the four per cent. So, rather than striking on a

particular number, I think it is probably fairer to think in terms of a range of possibilities which we attach probabilities to.

Ms Crawshaw—One of the things that I see about the government's actual modelling is that, although they took the average disposable income and said that that was around 24 per cent at the lowest level, the actual modelling they came up with to get their 1.9 per cent was actually done on 18 per cent. The Australian Pensioners and Superannuants Federation were saying that, even for them, the compensation package is flawed because their spending pattern on their disposable income is at 29 per cent. We are saying that we are already at the really conservative margin at 39 per cent, and we did it on those figures. We still stuck to those conservative figures, yet in our view it is completely flawed. We are saying that the 3.74 per cent, that real cost of living, is still a very conservative estimate for us, because we are already modelling it on what we say is flawed from the government's formula.

Senator GIBSON—I have a question about the other consultancy you had done by the Australian Economic Consultants from Brisbane. I notice that in making their estimates of changes of costs in the three areas they have basically taken off the wholesale sales tax of whatever it was and simply added the 10 per cent GST on top of that, without any other adjustments, basically, it appears to me, having neglected the substantial reduction, for instance, in transport costs—the diesel fuel excise reduction, which is \$3½ billion, and FIDs and BADs and things. In other words, the other cost reductions which are actually going to take place were not taken into account, it appears to me from reading that study.

Ms Hall—I believe that they actually took the whole of the compensation package into account. They had to do a model to project the prices into Brisbane and out because, at the time that they did the survey, they did not have the price data of the outer regions. They had to do a bit more modelling than just take off the GST. I think pages 4, 5 and 6 talk about how they apply the GST and look at the compensation.

Senator GIBSON—At one stage, they say they have taken off wholesale sales tax and added GST, but apparently nothing else. I am just making the point that I would be hesitant to rely on that information, as the other state taxes have not been taken into account, nor the big reduction in fuel prices. That is all.

CHAIR—We are now at about five minutes to the hour. The time allocated for this witness expires at 10 o'clock. I think this is the only time ATSIIC has appeared in this entire inquiry and, therefore, I was indulgent in the presentation. I do want to extend to the committee the opportunity to ask the questions that they want. It just means we are going to go over time.

Senator WATSON—I would just like to follow up on the question of the nappies. Obviously there is a big difference between the metropolitan price and the price to remote indigenous Australians. The freight costs are a bigger element of getting those goods out there. Therefore, you have to take off the pretty high rates of sales tax on the tyres, the jinkers and the trucks before you add on the 10 per cent. Then, as Senator Gibson said, one of the big beneficiaries should be inland Australia because of the big reduction in excise. You talk about the costs of those nappies going up. I would have thought that perhaps they would come down quite considerably. Dr Charles, would you like to comment on that as a

respected economist? Can you give us your view, because that was given as an exhibit of how costs are going to rise?

Dr Charles—I think there are a lot of factors that have to be considered to make those sorts of judgments. There are whole questions about how competitive markets are. Around Melbourne and Sydney and the major capital cities, where there are plenty of competing alternative sources, you might very much well assume that the full advantages would be passed on to consumers. We are dealing here with remote communities which, as we have heard and seen from video and elsewhere, do not purely rely on road transport. A good deal of deliveries are coming in by barges in some places and in other places they are coming in by aircraft, and often they are coming in with single source suppliers. This is a very difficult area. This would be one where you would want to be very careful about assuming just like that that cost changes are fully passed through the system.

The really important issue here is that, because the expenditure pattern of the communities is so heavily weighted to products which have previously been zero rated for taxation purposes, they are substantially without exception bearing the burden of the GST, which is really the big story. There may be some elements where there are offsets, but the offsets are nowhere near in the same order of magnitude as the broad based effect of the tax increases.

Senator WATSON—As an economist, what do you think the offsets would be for the nappies? That was provided as a good example of the added costs of something that is going to remote areas? Can we have your analysis on those items?

Dr Charles—I just gave you my analysis.

Ms Crawshaw—The experience has been, regardless of whether there is a GST, that these prices are occurring right now for all the reasons. Life Be In It has just done a survey of all Coles and Woolworths stores around Australia that found that the Northern Territory stores and the Darwin stores, in particular, were the most expensive in Australia. When they were challenged on this, they said the reason was the remoteness and freight. Their cheapest store in Australia is Townsville because you have Franklins. Even in the stores in Darwin, if you have goods coming that are a couple of days old, there will be a reduction in price. Out in the community stores—

Senator WATSON—I am not challenging the prices that you have given us. I accept the prices. What I want a further analysis on is what they are going to be in the future, and somehow we are having difficulty getting a proper analysis of what the future costs are going to be.

Ms Crawshaw—They will just argue that it is 10 per cent and the 10 per cent price will go on. Consumer affairs have never monitored the outrageous prices in community stores; they have never done their job, therefore we do not think they will do it on the diesel side, and that is what we are actually saying. If you are going to be making recommendations, this is one area where the consumer protection system has failed indigenous people and every politician and policeman knows this.

Senator WATSON—So, basically, your theory is that Allan Fels will not do his job in making sure the savings are passed on. Is that the basis of your theory?

Ms Crawshaw—They do not do it now and that is why we are saying that we are worried. Because they do not do it now, one of our recommendations is to make sure that it is written in and that those sorts of organisations are challenged. We will be doing that, as well, but we would also like to see it in the reports.

Senator SHERRY—Dr Charles, you have raised the valid point of the assumption of perfect competition. The ANTS document, the government's estimates of food products on the price effect, takes into account all of the issues relating to diesel and transport et cetera. The government's assumptions, which I do not accept by the way, are: meat and meat products 6.6 per cent increase in price; fruit and vegetables 5.7 per cent increase in price. This is assuming an immediate and full pass on of the reduction in the wholesale sales tax—perfect competition. Do you think that is valid?

Dr Charles—That is a very hard question. If I were doing the analysis, I probably would have done it in similar terms to the way the government has done it because it is very hard to have any other basis. Once you move away from the assumption of perfect competition, you are adrift in a very difficult world.

Perhaps another way of looking at this is to think about the robustness of what is being put. In those circumstances—and this is a calculation we went through in the paper that we prepared—you have got to have some sort of sense of the sensitivity of what is being put to relatively small changes in the parameters. So, if the numbers that have been presented there for the food changes were underweight by, let us say, a quarter—which is not an unreasonable situation when you consider the very special circumstances facing the people in the communities—that has a very substantial impact because of the nature of their expenditure pattern on the cost impact upon them.

Now, of course, the compensation package has been developed on the basis that, if the general cost increase is 1.9 per cent, then the compensation package for social welfare recipients and others is four per cent and so there is a considerable margin built into that process. I assume the government's own thinking was based on this notion of robustness and, if you like, overcompensating for the estimated cost of living increase.

But here we have a situation where, clearly, even on very conservative estimates, the cost of living increase is going to be at least twice, I would say, the cost of living index for the community generally. If you apply the same logic that has been applied to the 1.9 per cent and the four per cent, that then implies a corresponding change in the compensation arrangements.

Senator SHERRY—But the people living in rural and remote communities are a departure from the average. Their problems are a departure from the norm. And there are other examples that this committee has had of that. You have made suggestions about changing the package to minimise the impact, given your special circumstances. My question would be: how do you lock that in forever?

Ms Crawshaw—That is one of the things that we were not sure of. One of the questions I asked was: is it a one-off thing? There have been arguments and examples from around the world. When a GST starts at 10 per cent and increases, will the same sort of comparative increases happen in peoples' compensation?

Senator SHERRY—My question goes more to the issue of your income. Let us assume that there is an adjustment in your income payment. How do you lock that in forever? What is to stop a government, at some future date, from freezing it, cutting it or reducing it in real terms? We have got this problem in the pension area, too, for age pensioners. How do you effectively lock that in? Can you?

Ms Hall—Senator, I do not think we can actually say that this is the compensation that has to be. What we said was that the figures were based on what the government is saying it will compensate at the moment at the current level of the CPI increase of 1.9 per cent. However, I think there is a review of the government estimate of the CPI increase in the first year. Whatever it is, the thing we are asking for is that, whatever the increases are going to be in the CPI and the relativity of compensation, we would like the same to be applied to indigenous people in remote communities.

Senator SHERRY—I understand that. Let us assume the government accepts what you say—and I would not put a lot of faith in Minister Herron, given his performance to date in response to your particular concerns—how do you stop a future government cutting back, freezing or effectively reducing in real terms the compensation that you are seeking?

Dr Charles—The honest answer to the question you are posing is that there is no answer to that question. I spent a lot of time working in Canberra for 20 years and I saw all sorts of extraordinary things happen. So I would be the last person to say that what governments decide in this term will carry through to the next term and the term after. It is not possible to give that kind of guarantee. It seems to me that the bigger issue—in a sense it is the same question—is about whether the 10 per cent is going to stay there forever.

Senator SHERRY—Of course it is.

Dr Charles—A procedure has been put in relation to that which presumably is meant to give confidence that it will not be changed wilfully budget by budget. So, presumably, the answer on the compensation side is that it is, again, a major political question and the political process will deliver whatever result it delivers.

Ms Crawshaw—We would always continue to advocate that and we do have to rely on parliamentarians to be actually part of that advocacy. At the moment, the Senate is the house of review; it is the one that we do rely on. We have also relied a lot on Senator Harradine as an independent to try and keep those debates going on our behalf. That is the only way. Governments do not give you any of those assurances. We have to rely to the politicians of the day, of whatever ilk, to look at it fairly and justly. That is all we can ask for.

Senator SHERRY—In regard to the price effect on food, my assumption would be that non-Aboriginal people in rural and remote communities would have a similar problem with the price impact on food because of the costs of distribution in those areas. I assume it is not

just a problem for Aboriginal communities but there would be isolated farmers who would have a similar problem and also miners who are not part of an Aboriginal community.

Dr Charles—This is a very real question. To the extent that underlying economics are in play in transport costs and distribution charges, I think it is highly likely that, unless you are talking about company towns or company mining operations that may well have their own independent transport arrangements, if you have isolated groups of other Australians in these remote circumstances, they will certainly be paying a considerable differential. That goes without saying. But the difference is that their expenditure patterns are likely to be very different from those of the Aboriginal communities. That is the distinguishing feature.

Mr Jack—In remote communities, we have a lot of change in qualified tradespeople: bricklayers, carpenters, builders and all that. We have to get them from outside from places like a major town. When they come into a remote community and go into our stores, they get a really big shock about the prices.

Ms Crawshaw—They often buy up elsewhere and bring their stores in.

Senator MURRAY—Mr Jack, the businesses in the submission are listed in almost all communities as a retail store, fast food outlet, cattle company, fishing business, arts and craft wholesaler and retailer, road contracting company, building construction company, tourism business and, even on occasions, an airline company. In your experience, how many of those businesses have computers and computer systems?

Mr Jack—Not that many.

Senator MURRAY—The reason I ask is that I am interested in what professional services are provided to the communities by legal and accounting firms. When the new package is introduced, it is the accountants, in particular, who will have to advise businesses and provide the systems to change over to a GST. It is not just the impact of the GST but the ability of the business to handle that change with new systems and new computers. I am interested in how those services are provided to remote communities.

Ms Crawshaw—I could possibly answer that, Senator Murray. We are concerned exactly over that issue of the complexity of what the GST is going to do and the type of systems and technology that you will need in the communities. There are basic computer systems but most of them would not be able to handle the GST.

In some stores, you have that cash registrar. One of the concerns has been that they often do not even give a receipt. The prices are not marked on foods which, by law, you are supposed to do. One of our recommendations is that government is going to have to compensate to have those start-up costs and that services are not decreased because of the expertise that we are going to have to get in to be able to manage a GST because of the whole complexity of the returns and invoice systems and everything that has to be introduced.

Senator MURRAY—Would that retail store we saw on the presentation typically fly in the accountant once a year to do the books? How does it work? Is it all by post? How does that store manage their relationship with professional services?

Ms Crawshaw—Maningrida is quite a large community. It has a population, with its out-stations, of about 2,000 people. That arts and crafts centre is probably one of the more established ones in the country. They have their own accountant out there. That resource agency does the books for all the other services, whether it is CDEP or a whole range of things. You get one person in and they have multiple services that they have to supply to all of the different agencies, whether it is administering a small grant that might be coming in for an artist or whatever.

Senator MURRAY—You know that the government is concerned that there will be profiteering as a result of this change—in other words, people taking advantage of other people by manipulating the price structure and taking profits they should not. They have said that they will appoint 40 people from the Australian Competition and Consumer Commission to manage this. But it is quite impossible for me to envisage them going out to that remote community and doing anything about people who are profiteering. That would be right, wouldn't it?

Ms Crawshaw—That is absolutely right. One of the most well-known facts in the Northern Territory is about when the bigger communities of Groote Eylandt especially get a royalty equivalent for the mining that has been going on there. Every car sales place has the barges booked with the cars on. They know—and I have had to investigate this for one of the car yards—that the only reason they make a profit in lots of these areas is because they can put up to \$5,000 or \$10,000 on a car if they sell it to an Aboriginal community. It is just a standard rip-off practice. It is very well-known and everyone knows that stuff.

Senator GEORGE CAMPBELL—Dr Charles, a fair bit of the discussion this morning has been on the impact on the expenditure side in these remote communities. The committee has had a lot of evidence from various tourist bodies as to the impact, for example, on the tourism sector. That has varied between bodies, but there is general agreement that tourism may well decline as a result of the introduction of a GST. Given that a lot of these rural and remote communities rely on tourism as an income base, have you attempted to do any qualitative work to qualify what the impact may be on income for these communities, apart from the impact in terms of expenditure?

Dr Charles—No. We focused very heavily in our study on the expenditure side because there was a very big gap in knowledge on that side of the equation. We did make reference to it in our paper. I think other documents that have been put to you talk about the issues of arts and crafts production and tourism enterprises. There is some qualitative material presented. We did not do anything more substantial in the time that was available to us on that issue. Louise, have you done anything more there?

Ms Hall—We have not had a chance to look very closely into the effect and we have not had the resources to do that either, but we will be doing something about the effect on businesses, including tourism and arts and crafts businesses, as part of what we need to do in helping our communities to deal with the new tax system if, and when, it comes.

CHAIR—On your packet of tea example, you pay \$2.40 here. You gave me a name of a remote community in which it is \$4.05. The difference between the two purchase prices is \$1.65. That is a packet of 50 tea bags, so that is three cents a bag. You are saying to us that there is no way it costs three cents to transport that tea bag to that community. A monopoly rent is being extracted by the transporter. Because there is not perfect competition, when prices go down, you do not expect them to be passed through to you in the full measure of the reduction at base. That is essentially the first point I think you are making.

The second point is that packet of tea is \$2.40 in the city and \$4.05 in the country. At 10 per cent GST, you pay 2.4c GST in the city and 4.1c GST in the country because you are paying a percentage tax on a higher flat amount. But, having established those points, if anyone queries the methodology of the survey that you have undertaken, the government should conduct a proper, well-balanced survey to establish what the true facts are. That is the essence of it, isn't it?

Ms Crawshaw—Exactly, yes.

CHAIR—Thank you very much for providing assistance to our inquiry.

Proceedings suspended from 10.19 a.m. to 10.33 a.m

McINTOSH, Mr John Lauchlan, Executive Director, Australian Automobile Association

METCALFE, Mr John, Assistant Director, Australian Automobile Association

OGDEN, Dr Kenneth Wade, Group Manager, Public Policy, Royal Automobile Club of Victoria Ltd

PROSSER, Mr Bryce David, Senior Economist, Public Policy Group, Royal Automobile Club of Victoria Ltd

CHAIR—Welcome. We invite you to give a short overview of your submission, bearing in mind that we have a copy of it and are familiar with it, to summarise the main points you wish to impress on our minds and then to be available if you would be kind enough to take questions from us.

Mr McIntosh—Thank you for the opportunity to present the key points of our submission to you today. The Australian Automobile Association represents the major motoring clubs across Australia and represents 6.4 million members through its organisations. The RACV, whose representatives appear with us today, is one of our constituent members.

You have our submission, as you noted, which deals with a number of issues: firstly, the broad impact of taxation reform on motoring costs; secondly, keeping petrol prices unchanged; thirdly, road funding; fourthly, the treatment of diesel; fifthly, the transition arrangements and, lastly, the carbon tax.

Today I would like to focus in my opening address on two key issues: firstly, the issue of keeping petrol prices unchanged following the implementation of the GST and, secondly, transitional arrangements which affect the payment of ordinary club membership fees. As I say, 6½ million members pay their \$40 to \$50 every year for roadside assistance. My colleague on my right, Dr Ken Ogden, from the RACV will address road funding issues and the treatment of diesel.

Let me first turn to the issue of unchanged petrol prices. The government's taxation proposal set out in the ANTS document leaves open the question of how much petrol excise—currently 43c—will be reduced when the GST is introduced to maintain the promise of no increase in pump prices. ANTS is also silent on how petrol excise will be adjusted to take account of the one-off impact of the GST on the CPI.

We are concerned about the impact of the GST on petrol prices since the direct effect of reducing excise by a fixed amount and applying a 10 per cent GST to the retail price of petrol will be to increase the gap between the city and country petrol prices, which I am sure is not the government's intention. To ensure that pump prices do not rise in any country town, AAA has calculated from extensive research that the government should reduce the petrol excise by 8.9c a litre before applying the GST.

According to research undertaken by Econtech for AAA, indirect taxation reform will generate cost savings in petroleum production, transport and distribution. This will amount to about 0.3c to 0.6c more in the country compared with the city, but the savings will not generally be enough to offset the direct impact of the GST on the city-country price gap.

We also note that the Treasury estimates of cost savings from indirect tax reform apply in the long term and assume the benefits are fully passed on to consumers. It is expected that cost reductions will take some years to be realised. Since the cost reductions will not significantly impact on the country compared with the city, since they apply only in the long term, and since the benefits of indirect tax reform are likely to be quickly eroded by the effects of indexation—I remind you that the excise on fuel has been indexed for many years—AAA believes that the cost reduction should not be taken into account by the government when setting the excise level to prevail from 1 July 2000.

We do believe, and strongly believe, that the indexation for petrol excise must be abolished. If the policy of indexation were to continue, the excise to apply on 1 July 2000 would need to reflect the immediate inflationary impact of the GST which has been estimated by the Treasury at 2.5 per cent. If pump prices are not to rise, excise should be reduced by 8.9c a litre at the time.

The second issue I would like to briefly mention is the transitional arrangements. One of the major problems confronting the automobile clubs in respect of the GST legislation is the concept that services provided as a result of annual payment are deemed by the legislation to be provided on a uniform basis over the year. Consequently, and this is a little tricky to work out, annual membership subscriptions paid after 1 July 1999—this year—will be deemed to be providing a service after 1 July 2000 and, to that extent, will be subject to the GST.

There are a number of options which the clubs have to address this problem. We can back-bill our 6½ million members for the GST liability after 1 July this year, or we can collect the GST on a pro rata basis from 1 July this year. I have to say that neither approach seems to be politically expedient. It would involve a high administrative cost, and I am sure that our clubs and, indeed, the government, do not want too many complaints from our significant membership base.

It seems to us, therefore, that the preferred approach, which I understand was adopted in New Zealand, is to have the legislation amended so that membership subscriptions which are normally rolled over on a yearly basis are not affected by the GST until they are invoiced after 1 July 2000. We are working with the Treasury to resolve both of these issues—both the transitional arrangements and the need to keep the petrol prices unchanged.

As I said, firstly, the ANTS document was silent on the exact detail of the petrol price issue and we believe our research demonstrates clearly what that component of reduction should be. I think the transitional arrangements are really unintended consequences and I am sure they can be resolved. I would like to ask Dr Ogden to comment on the key issues as the RACV sees them and, in particular, issues of road funding.

Dr Ogden—Thank you, Lauchlan. As Lauchlan has said, I represent the RACV, the Royal Automobile Club of Victoria. We have a membership of 1.4 million people. On average, two out of every three households in Victoria has an RACV member. We are a constituent of the Australian Automobile Association.

I would like to make some comments that relate particularly to Victoria, but also some more general comments related to road funding. In respect to road funding, I do speak for all of the auto clubs, and I will try and keep that distinction clear to the committee.

On the subject of road funding, currently, as members would be aware, a proportion of the funding for construction and maintenance of roads comes from the Commonwealth government through financial assistance grants to state and local governments. Under the ANTS proposal, these financial assistance grants would be abolished and, in return, the states and territories would receive the proceeds of a GST and then distribute funding within their jurisdiction.

The auto clubs have got two concerns with this arrangement. The first is that the ANTS document says nothing about the ongoing federal role in road funding after the introduction of the ANTS proposals. Currently, the Commonwealth government funds the national highway system. In partnership with the states and territories, it funds the roads of national importance. It also makes a modest, though valuable, contribution to road safety through the black spot program.

The auto clubs believe that these three programs should continue, that they are valuable and that there is a legitimate role for the federal government to play. However, no mention is made in the ANTS document of what happens to this funding after the introduction of the proposed system. So we would like to place before the committee our position that, in any reform of the Australian tax system, there is either an ongoing Commonwealth government role in road funding for these roads which are of national significance or that at least a corresponding amount of funding is provided to the states and territories to allow at least the current level of road funding to continue.

I would like to pick up a particular issue in relation to that that is of concern to Victoria, and that is that Victoria is starting from a very low base in any negotiations that relate to state shares. Victoria has 25 per cent of the nation's population, we contribute 26 per cent of gross domestic product and Victorian motorists contribute 25 per cent of the federal petroleum products excise. But in recent years Victoria has received only 20.6 per cent of federal government financial assistance grants identified for roads and, I might say, an even smaller proportion of the funding for the national highways and roads of national importance.

The RACV would argue that, if the new funding arrangements proposed in ANTS are introduced, Victoria's share of what is currently financial assistance grants to state and local governments should be set at 25 per cent of the total, not the 20.6 per cent received in recent years. This translates to a \$34 million handicap that we experience at the moment. In other words, the status quo, the starting point for the allocation to Victoria, should be \$34 million in excess of what it is at the moment.

The RACV—and here I speak for all motoring clubs—are concerned that the road funding is not only maintained in real terms but that transparent, consistent and equitable allocation systems for road funding at a state and territory level are in place prior to the introduction of the new tax system.

This leads me to the subject of the reform of road user charging. I would point out that the clubs have long advocated that the current method of paying for road construction and maintenance in Australia is archaic and should be replaced with a specific road user charge. Our view is that this road user charge would pay for road construction and maintenance, for environmental costs and, initially at least, it should be levied in lieu of a corresponding amount of the petroleum products excise.

We further recognise that if there is to be tax reform, then motorists should pay their share. In the context of the ANTS proposal this means that fuel, the road user charges outlined above and other costs of motoring should be taxed at the proposed GST rate of 10 per cent. This might be contrasted with the effective current rate on the pre-taxed price of petrol of 130 per cent. So if a GST is to be introduced on top of that, it is effectively a tax on a tax. On the other hand, if our proposal for road user charging was to be accepted, it would enable the government to alter the road user charge to account for a variety of factors, including such things as fuel type, vehicle type—to allow for road wear—environmental costs and also the disparity between city and country petrol prices.

This leads me to make some comments on the issue of diesel fuel pricing and the proposals within the ANTS document that there be a diesel fuel credit for registered businesses which would effectively reduce the excise payable on diesel from 43c to 18c per litre, a difference of some 25c. The auto clubs recommend that, rather than introduce a diesel fuel credit, it would be more efficient and equitable to tax all fuels at the same rate and to introduce a variable road user charge, as I have just mentioned. This would ensure that all vehicles, including heavy vehicles, pay their way in terms of their effects on road wear, on environmental costs, on accident costs and so forth.

It is our estimate that with a road user charge set in such a way as to recover the amount that is currently spent on roads, to allow for environmental externalities, to recover accident costs not paid for by insurance and to include a 10 per cent GST, petrol would be some 14c a litre cheaper than it is now and diesel some 12c a litre cheaper than it is now. It follows, therefore, that the ANTS proposal to make diesel 25c cheaper for heavy vehicles, with no change in petrol prices, would imply a very significant subsidy for road freight, and this in turn implies a very severe underrecovery of infrastructure and environmental costs from those vehicles.

We also note that 45 per cent of on-road diesel consumption is in capital cities. So if the diesel rebate proposal is seen as a way of supporting rural industry and, if you like, the bush generally, then we would argue it is a very coarse instrument.

Finally, I would like to refer to the ANTS proposal in relation to motor vehicle taxation. The proposal is to remove the existing 22 per cent wholesale sales tax on non-luxury vehicles and replace this with a broad based tax, a 10 per cent GST. It is estimated that this would result in an 8.3 per cent reduction in the cost of new non-luxury vehicles. The

Australian Automobile Club supports this charge because it would improve the affordability of new vehicles and, in so doing, encourage the purchase of safer and more environmentally friendly vehicles. Thank you again for the opportunity to make this submission. We would be happy to take any questions.

CHAIR—Thank you. Can we move now to questions, Mr McIntosh?

Mr McIntosh—Yes.

CHAIR—You have raised a number of matters for this committee. Have you put those to the government or are you putting them to us only?

Mr McIntosh—No, we are working with the government on these matters.

CHAIR—What is the government's response?

Mr McIntosh—They are happy to listen and, as I understand, part of the task force is reviewing these issues.

CHAIR—Reviewing—do you know when you will get an answer?

Mr McIntosh—No. I do not say that lightly; I expect that we will get some answers. We have been talking with the Treasury about these issues. It is part of the ongoing review process.

CHAIR—Can I draw this to your attention. We have to report by 19 April and upon the receipt of our report the Senate, I imagine, will commence debate on these bills. So that we know where there are areas in agreement and where there are areas in dispute between the government and organisations such as yours, if you do receive an answer to your entreaties before, say, 10 April, when we are writing our report, would you let us know?

Mr McIntosh—Certainly.

CHAIR—And whether that settles your concerns or whether there are concerns that are still in play that you would then want the Senate, as a house of review, to consider.

Senator GIBSON—Mr McIntosh, we have heard these stories before. I guess it was three weeks ago when we were in Adelaide that your sister organisation, the RAA, made these points to this committee, so what you are saying to us today is nothing new to the committee, apart from some points that Dr Ogden made about Victoria. That is essentially true, isn't it?

Mr McIntosh—We probably have not focused on the membership issue as much.

Senator GIBSON—That is true.

Mr McIntosh—I think that is one of these unintended consequences that has come out as people have worked through the issues. The membership issue is the issue that is different

because it affects so many people and, for our constituent organisations, we will have to decide fairly quickly when to start billing people. That is an issue that has probably arisen in the last month or so since the Adelaide submission.

Senator GIBSON—You have confirmed that you are in consultation with the government. My understanding is that the government has not finalised what it is going to do with excise yet and bills have not been prepared. A bit of what you are saying today about ‘what if?’ is really speculation on your organisation’s part about what may happen.

Mr McIntosh—I think that is right. There was a lot of discussion prior to the election on the benefits of cost reductions in the bush. Because we are active in the monitoring of petrol prices, we raised concern on this issue prior to the election. The government made a significant promise that prices would not rise, so we have done the research to show that there has to be a significant change. We think that the original document was silent on the issue and we are hoping the government will look at this in a positive way in order to meet the commitment it has given.

Senator GIBSON—The ANTS package estimate by Treasury shows that they expect road transport costs for Australia to go down by 6.7 per cent across-the-board. I just want to bring to your attention that we had evidence a few weeks ago from the Australian Road Transport Forum, which represents the big trucking organisations for large trucks on highways. Their estimate is that they expect their costs to go down by between 15 and 19 per cent.

Secondly, they tendered evidence that there is so much competition in the industry that they would expect those prices to go down very quickly indeed. They cited the experience of what happened during the Gulf War when prices for fuels went up for a relatively short period of time and then came down again. Road transport charges by their members followed that price up and down again very quickly. Their expectation is that competition will work effectively in that industry. Do you have any comment on that?

Mr McIntosh—I think you are right that the Treasury estimate was 6.7 per cent—and you say the RTF estimate is 15 or 20 per cent or higher. Looking at the reality of freight as a proportion of fuel costs, I quote the latest Caltex rates—which are published daily on the Internet—which show that freight to Albury, for instance, is 2.1c a litre, so a 15 or 20 per cent reduction in 2c a litre is not a lot and is hardly going to show any sort of impact at the pump. Diesel prices in Albury at the weekend were actually higher than petrol prices, and diesel prices are the same around the state as opposed to petrol prices, which vary by 10 per cent, so I do not think that transport costs in fuel costs are a very significant proportion of the pump price.

I understand that there will be some reductions and our model from Econtech shows that there will be other savings in petrol prices. There will be savings at the refinery, in the distribution and in sales tax, but those reductions will also occur in the city. The difference in the country prices will actually increase with the GST unless there is a significant component reduction in that excise up-front. That is the issue. If indexation continues, which it should not, by the year 2000 excise will go over 44c. So I guess there will continue to be

creeping indexation and the issue for the bush will be that the gap will continue to widen. I do not think the transport costs will be as substantive as people are claiming.

Senator CHAPMAN—Mr McIntosh, even if we accept your proposition that the reduction in costs in country areas, as a result of reduced transport costs, is not sufficient to offset the additional costs that a GST might impose on fuel, would you accept that the cost of fuel is only one component of the total cost of motoring?

Mr McIntosh—Of course it is, but it is a very important cost. It does not go away. You cannot do without it. The commitment the government gave was quite categorical that fuel prices would not rise in the bush.

Senator CHAPMAN—But if you take into account the reduced costs of parts, the original cost of motor vehicles as a result of the substitution of the GST for wholesale sales tax that affects spare parts, tyres and so on, the overall cost of motoring would still come down substantially, even if you accept your theory as being accurate.

Mr McIntosh—I think that is not the issue we are arguing here today. We are putting the case for the price of petrol, not for the price of motoring.

Senator CHAPMAN—In relation to country areas, would it be reasonably accurate to conclude that a higher proportion of motoring in the country is for business purposes—of farmers visiting towns to buy parts and meet their stock agent and do their banking et cetera?

Mr McIntosh—I think it would be difficult, from a statistical point of view, to find out that information. The question of the farmer visiting the town is really a fairly old analogy. In the bush there are a lot of regional towns where people do normal travel, just as people do in the city. We know that in the city there is a very high proportion of business activity as people travel around.

Domestic mileage is fairly consistent at 15,000 kilometres a year. I think it is a little higher in the large remote states, such as Queensland, than it is elsewhere. But I do not think that we would say that there was more business fuel used in the country. People still take their children long distances to school. I guess they do not take them in diesel Mercedes; they take them in Holden Commodores with petrol engines.

Senator CHAPMAN—But for business purpose use, the GST will be rebatable on fuel costs, won't it?

Mr McIntosh—As it stands, sure.

Senator CHAPMAN—Could you comment on evidence that has been put to these inquiries into the GST by groups claiming that the reduction in fuel cost will lead to increased road usage, as a result of which there will be increased road deaths, either by road accidents or as a result of environmental pollution?

Mr McIntosh—I think our evidence, and it touches on the point I raised before, is that basically people do not have any more time to drive than they have at the moment. Making fuel cheaper is unlikely to find people doing more Sunday drives or driving to work twice a day instead of once a day. Our information and assessment of the information in Australia is that people drive a fixed amount per year. The price of fuel is a key part of their budget and a key issue for them but, if petrol prices drop, they do not drive more and, if petrol prices go up, they do not drive less.

Senator CHAPMAN—So you do not see any validity in those claims that have been made?

Mr McIntosh—Very little.

Dr Ogden—I could add to that. Our estimates are that some of the costs of motoring will rise. We would expect repairs and servicing, for example, to increase by four per cent, motor vehicle insurance by three per cent and compulsory third-party insurance by 10 per cent, so they are offsetting directions.

Senator CONROY—Being from Victoria, I am particularly interested in the Victorian information. You have a chart which sets out all the increases in the city-country price effects after the GST. It is in your attachment marked No. 1. Presumably that is based on Mr Murphy's Econtech modelling.

Mr McIntosh—Yes.

Mr Metcalfe—Some of it is based on the Econtech modelling, but some is also based on RACV/Shell gauge information that disaggregates petrol prices by tax, retail margins, wholesale margins and transport margins.

Senator CONROY—Thank you. When Mr Murphy has done modelling for other associations and for our own committee, which we have commissioned him to do, he has always made the assumption of what is referred to as the 100 per cent flowthrough of the cost savings. Are you aware if he used that same assumption in his modelling for your organisation?

Mr Metcalfe—He has done both. There are tables in our submission that show cost reductions both in the short term and in the long term, the point being that a lot of the benefits of indirect taxation reform will impact on capital costs and recurrent costs. That issue is important in terms of what proportion of capital costs and total costs there are at the different stages in the marketing chain.

Senator CONROY—I want to clarify what you said there. When he did the modelling he did the modelling on two bases—

Mr Metcalfe—Yes.

Senator CONROY—A 100 per cent flowthrough is one estimate and then presumably, say, a 60 per cent, a 70 per cent or an 80 per cent flowthrough of those cost savings.

Mr Metcalfe—The long-term benefits are derived from the PRISMOD model which is contained in ANTS. For each of those elements—retail, wholesale, transport and refining—there are long-term cost reductions that are derived from Treasury PRISMOD modelling and then Econtech have applied the proportion of capital costs to total costs at each of those elements in the marketing chain to derive short-term cost reductions. Clearly, a lot of the benefits of indirect taxation reform will be available only in the short term and a lot more will flow through in the longer term—some more than others depending on which part of the marketing chain you are looking at. For example, where recurrent costs represent a high proportion of total costs at the refining stage the benefits will be fairly significant early on. In some of the other elements of the marketing chain the benefits will not flow through until a much later stage.

Senator CONROY—I am interested in page 12 of your submission where you talk about this question of the flowthrough. You say:

It should also be emphasised that the estimates of cost reductions are long-run estimates and assume that all cost reductions are passed on to the consumer. This may not be the case, and certainly not in the short-term.

Mr Metcalfe—Correct.

Senator CONROY—You would agree that modelling that includes 100 per cent flowthrough on day one is unrealistic?

Mr Metcalfe—We would make the point that they will not flow through immediately. They will flow through really only in the longer term and depending on the proportion of capital cost to total cost in the industries concerned.

Senator CONROY—When your sister organisations appeared before us in Adelaide there was a fair bit of discussion between the committee and the witnesses about the question of the differential widening. I was wondering, even though you have spoken about it briefly, if you could take us again through why it is that there is an actual widening in the gap between the city and the country prices, particularly that question of it applying to the retail margin, because there seems to have been some confusion in the committee previously about that.

Dr Ogden—The reason is the GST is applied to the retail price and the retail price is higher in the country because of freight and high retail mark-up. Because you are applying the 10 per cent to a higher figure it has the effect of widening the gap.

Senator CONROY—Even though costs are going down that widening is greater?

Dr Ogden—As Mr McIntosh said a few minutes ago, the decrease in transport costs is not sufficient to offset in full the differential increase in GST.

Mr McIntosh—Basically you have a situation where in the city when you have prices of, say 60c, you can take off a fixed amount—you can take off 9c or take off 10c and end up with 50c. If you take 10c off a price of 85c at Port Hedland you end up with something else. The cost savings will not occur. At least the price of petrol will not go up in Port

Hedland but the gap will still increase. But, as we know, some of the flow-on effects will occur in the city as well. The flow-on effects of lower sales tax or lower capital costs will occur for city motorists as well as for the motorists in the bush.

Senator CONROY—Mr Ogden, your organisation has campaigned very strongly over the years about the disparity between city and country prices. Despite the small reduction based on the modelling that it shows in terms of the prices, you must be disappointed that the gap is getting wider.

Dr Ogden—We are picking up the point in ANTS which actually specifically says that there will be no increase in the price of fuel. What we are pointing out is that if that is to happen then the excise must come down by 8.9c per litre, not by 7c per litre.

Senator CONROY—Do you feel that you are having any success in your discussions with the government at this stage?

Dr Ogden—There have been ongoing discussions for years, as you quite correctly point out. My colleague David Cumming appeared before another committee in Canberra quite recently that was looking at the deregulation of the industry—where that is at the moment of course is up in the air.

Mr McIntosh—What we are seeing is that there is a reduction in the spikes that are occurring in the gap. The transparency that the deregulation will bring about will mean that, where people have been taking unnecessary advantage—or they might say necessary advantage—of the convoluted system that existed before, we are likely to see the spikes removed and the wide swings in variation between the city and the country come down.

The AAA is publishing on a regular basis, in conjunction with others, regular fuel prices. We have seen the introduction of new players—Woolworths—into the market and we have seen substantial reductions, particularly in places like Darwin. It is a tough business, but I think the deregulation is a long-term business. We have to spend a lot of time waiting to make sure that transparency works so that we can hold those in the distribution and selling chain to account when they do wish to take profits unnecessarily.

Senator CONROY—Whenever I have travelled through country Victoria, Dr Ogden, I encounter many stories about collusion between the one, two or three—nowadays fewer—petrol stations in country towns. There are stories about people having a beer together on a Friday night and setting a price for the following week. Do you think there is sufficient competition currently in the country market?

Dr Ogden—There is not sufficient competition, in our view, either in the country market or at the refinery gate. This is the deregulation that we would like to see so that there would be unrestricted access to city terminals or, for that matter, country terminals so that there can be true price competition right throughout the chain.

Senator CONROY—Yes. Generally, the position that many country people hold is that there is not enough competition in the country, particularly at the moment.

Dr Ogden—Not enough competition but, paradoxically, there are too many service stations in country areas and this is what leads to the necessity for the very large mark-ups in order to make those businesses viable.

Senator CONROY—When Treasury make assumptions in PRISMOD about red-hot competition delivering all the benefits down the track, do you have confidence that, given your real world experience about not enough competition in this particular sector, all of those price savings would be passed on even in the long run?

Dr Ogden—It very much depends upon what happens to the deregulation issue which, of course, is not part of tax reform. One would expect that competition would lead to significant changes if, in fact, the industry was deregulated. Our concern is that there should be deregulation so that competition can, in fact, apply. At the moment, there are institutional factors that prevent competition from producing whatever benefits it may be capable of.

Senator CONROY—But this is a submission about ANTS and how the world affects its benefits. Treasury have not modelled whether or not the legislation on deregulation passes the parliament or not. This is about ANTS and this is a submission about ANTS. What I am asking you is: holding everything else constant, and putting aside the deregulation question, which is a legitimate debate for another day, do you believe there is enough competition in regional and country Victoria at the moment to deliver all the benefits that Treasury believe will be passed down the chain? Do you see those price falls that Treasury are saying have to happen because of competition?

Dr Ogden—My answer remains that the current institutional arrangements prevent competition effects from working.

Senator CONROY—I guess that is a no, that you do not see the full prices being passed on in the current environment?

Dr Ogden—I am saying that it is not practical to do as you suggest and put that to one side. If we accept that the current institutional arrangements will not change then we will not get competition. That would apply whether or not ANTS was introduced.

Senator CONROY—I am agreeing with you that in the current situation there is not enough competition. With ANTS you are seeing a widening, and the widening is meant to be offset by the price falls coming. The Treasury position is that there is full competition everywhere and 100 per cent flowthrough of prices and all the price savings, even the short-run ones, are coming immediately.

Their position is that there is enough competition in the marketplace that will drive those prices down. However, what your organisation has said for many years is that there is not enough competition in this industry, and that is going to be made worse after the package is introduced, on your own figures.

Dr Ogden—And your question is: will that change?

Senator CONROY—I am saying it cannot change. You are saying it needs institutional factors. I am saying there is not enough competition right now. After the ANTS package, when things are supposed to be made better, the price savings will not come because there is not that competition. It is actually made worse after the ANTS package.

Dr Ogden—The level of competition will not change but that does not mean that if there are cost changes within the chain that they would not be passed on. I would expect that if there were cost changes, either increases or decreases, they would be passed on. But the competitive benefits—

Senator CONROY—Why? There is no competition to drive those prices down.

Dr Ogden—But the competitive benefits that one would get from deregulation would not allow those to be passed on.

Senator CONROY—We are trying to put aside the question of deregulation. This is a Senate committee about ANTS. It may never happen. The legislative changes you are talking about may never pass the parliament. So what I am asking you to do is put that aside because that is something that may or may not happen.

Your organisation for years has said there is not enough competition, that it needs changes. This is a package that relies on red-hot competition—to use the Treasurer's words—and Treasury's assumptions of a 100 per cent passing on of all the savings. But this is an industry in which you acknowledge there is not red-hot competition. I am putting it to you that those cost reductions will not be passed on because there is not red-hot competition. The market is not working to drive prices down now, so it would seem to me that it would not be able to drive those cost savings into flowing through to consumers.

Dr Ogden—I see the logic and I acknowledge the logic, but I cannot make a prediction as to whether that logic would produce that outcome because other factors may well come into play, not the least of which is the transparency which the RACV would bring to the system to ensure, to the extent that we could, that those cost savings were passed on.

Senator CONROY—Okay. I will pass over the questioning for the moment.

Senator HARRADINE—I understand the focus of your submission is on fuel prices, but either Mr McIntosh or Dr Ogden mentioned the CTPs and the effect on overall motoring cost of GST on CTP. Could you outline that, and also whether or not you have raised with the government the possibility of the likelihood, or the unlikelihood, of state governments abolishing stamp duties on insurance.

Mr McIntosh—That issue probably was raised in some detail by the NRMA.

Senator HARRADINE—Yes, it was, with us in Sydney. Could we take it that you are on—

Mr McIntosh—Yes, we would support the NRMA's position there, and the Insurance Council's position. It was a very comprehensive submission. We are part of that and we are aware of that.

Senator HARRADINE—That is all I need, thank you.

Mr McIntosh—But it is a cost, as was said.

Senator MURRAY—Mr McIntosh, the Ralph committee has been producing reports and it has paid a great deal of attention to principles. It seems to me that your submission also establishes a desire for some principles to be spelt out and adhered to. Amongst those principles you spell out is that there should not be a tax on a tax. A second one—and the two are not necessarily together—is that all fuels should be taxed at the same rate.

Portions of the alcohol industry have made a similar submission to this committee. They have essentially said that all alcohol should be taxed by volume and that if you want to vary the tax for health, environmental, economic or social reasons, such as low alcohol products versus high alcohol products, you then vary the price accordingly. It seems to me that is what you have said because you have said that the charge could vary between fuels. As you know, the AMA and conservation groups and others maintain there are health, economic and environmental differences between gas, petrol, diesel, leaded and unleaded fuel and all those sorts of things.

My summary of your argument is that you believe not only that fuel should be taxed at the same rate but also that if the government decides for social, environmental, economic or health reasons to vary the price incentives, if you like, for the usage of different fuels, it should do so on identifiable and principled grounds. Is that a correct summary?

Dr Ogden—That is almost right. I will make one slight correction to what you say. We would argue that all road users should pay their way. They should pay their way in terms of road construction, road maintenance, environmental costs, air quality and the like. We would not see that as a punitive charge; we would see that as paying their way.

In addition, we recognise that motorists, as do every other sector of the community, should pay their fair share of tax. So if the general level of taxation is set at 10 per cent then we would accept a 10 per cent surcharge on top of that road user charge by way of taxation. In other words, we are trying to clearly distinguish between a road user charge, which is for the construction and maintenance of roads with an allowance for environmental externalities, and a tax. A tax should be seen as something quite separate; a tax is what is necessary for the general running of a government. If everything else is taxed at 10 per cent, we see no reason why that should not apply also to motorists.

Mr McIntosh—It is a principle, as you say. It is a principle that at the moment is really muddled by using an excise, which is indexed, and then trying to adjust that and then adding something back to it, and then in some cases having no excise, as with gas. It is not clear that the road user, the person who uses the gas or the diesel or the petrol, has any feeling for the use of that and the output in the end. We believe there is a clear principle to be

established that all fuel users should pay, and then if there are subsidies to be made out for other reasons that they should be made out separately.

Senator MURRAY—The second part of my question concerns the effect of price differentials. The evidence would seem to be that since the introduction of a different price for unleaded fuel, or a different price for low alcohol beers, that has affected the level and nature of consumption, assisted by marketing and educational practices.

It is the belief of conservation groups—indeed it is the belief of some governments in the world, and of the AMA—that the changes to the ANTS package in fact incentivise consumption of diesel. These people believe that the incentive should go the other way, towards the consumption of cleaner fuels, of which the cleanest apparently is LPG. Do you have any experience as to the consequence of effecting price differentials between different types of fuels and whether that does or does not affect the kinds of vehicles and the kind of equipment used by mines and manufacturers and other people as a result?

Dr Ogden—I will make two points in response to that question. Firstly, our estimate is that if one were to adopt our model—that all road users should be pay their way, including an allowance for environmental costs, plus a tax—we would see diesel being some 2c per litre more expensive than petrol. That is substantially because of the increased health costs associated with diesel in urban areas, particularly related to particulates.

Senator MURRAY—Have you established that differential arbitrarily or because you know it has a certain effect on consumer behaviour?

Dr Ogden—The effect on consumer behaviour is the second point I wish to make. We are concerned about the effect on consumer behaviour, particularly if there is a very significant differential between diesel and petrol. While, according to the ANTS proposal, the diesel would only apply to commercial use, we are well aware that a significant amount of diesel does find its way from the commercial sector to the private sector. We would expect that it would tend to increase the proportion of private vehicles that are powered by diesel, including those in urban areas, and we would have some concern about the health implications of that.

Senator MURRAY—If you were positing a 2c a litre difference between diesel and petrol, I presume you accept that for petrol there should be a difference between leaded and unleaded fuel. Do you have a recommendation for a cents figure for the difference between leaded and unleaded?

Mr McIntosh—The interesting point about that is that originally it was set up as a 2c environmental charge which was to be returned for environmental purposes—and we still have not seen it. The previous government did that and we have not seen it from the current government.

The issue of 1c or 2c here or there, or even 10c here or there, is very difficult because we do not, as Dr Ogden makes the point, have a comprehensive approach to this whole thing. If we make add-on charges or add bits and pieces here and there, we do not get the full picture. The issue with diesel is based on current diesel fuel sold to existing diesel

engines in Australia. If we had a different product with different quality engines we would have a different result. We have to be very careful about taking existing short-term pictures and drawing 1c or 2c here and there. That is why we have been saying for some years that it is important to revise the whole system, start from scratch, and bring in the road user charge and then the externalities on top of it.

Senator MURRAY—But you see, Mr McIntosh, in a committee like ours composed of four political parties, we have to arrive at a situation as to whether we can recommend to the government that we could produce a good environmental and health outcome with regard to fuels but, at the same time, not damage our economic prospects. The assumption is that, if LPG is the lowest price—and then unleaded petrol, then petrol and then diesel—you are contributing as best you can, given the nature of our country, to a better environmental and health outcome.

The problem we face is that there is no clear evidence before the committee on the price differential at which real behavioural change occurs. We have had witnesses say to us that the demand for fuel is relatively inelastic and will not affect price behaviour. We also have anecdotal evidence that already the advertising for diesel capital equipment and vehicles is increasing because people are anticipating a more attractive price regime. We have to come to terms with this issue. An authority such as yours can assist us in making that consideration. We need some precise responses if you are able to give them.

Dr Ogden—I would respond by saying that we are coming from a slightly different starting point. Rather than attempting to influence behaviour to achieve a prescribed outcome, we are saying what costs do different vehicles impose, including the much heavier wear and tear that a large vehicle imposes on the road network and so forth and so on. Environmental charges are part of that. At the end of that process—and I might say it is a bit rough and ready because the data just does not exist in this country to enable one to do it with any degree of finesse—we would believe that, if all vehicles paid their way, including their environmental impacts, then diesel would be 2c per litre dearer than petrol.

Senator MURRAY—And the LPG? Would it be significantly cheaper than both petrol and diesel?

Dr Ogden—It would be significantly cheaper than petrol and diesel, but a lot more than it is now, because LPG-powered vehicles make no contribution to infrastructure.

Senator WATSON—Mr McIntosh, you indicated that the cost reductions may take up to two years to flow through. Is that based on the New Zealand experience? What were the reasons for coming to that conclusion?

Mr McIntosh—I think the modelling which we had undertaken shows that the impacts of the GST effect we mentioned earlier—such as the issues of capital equipment as well as sales tax and spare parts—take some time to flow through, as opposed to the short-term effects of direct reduction in fuel at the bowser in the city that will occur immediately. There will be some years for those things to get through. People are not going to replace all their trucks immediately with new trucks that have cheaper sales tax, and so those savings will not occur immediately.

Senator CONROY—I wanted to come to the executive summary in Mr Murphy's report. I am just trying to conceptually grasp one of the sections. I follow the petrol excise cut on the first page, petrol prices without cost reductions, petrol prices with Treasury estimates, the gap. The next section deals with petrol prices with short-term Treasury estimates of cost reductions. I am struggling to understand what that quite means in terms of short-term cost reductions. I know Mr McIntosh was just talking about those sorts of issues, but could you take me through them?

Mr Metcalfe—On page 9 of that same attachment, there is a reference that states:

. . . recurrent purchases account for about 79 per cent of costs in the petroleum products industry that refines petrol. Capital costs account for only about 18 per cent of costs.

The short-term benefits are calculated from the Treasury long-term estimates, using the proportion of recurrent and capital cost to total cost in the way it is shown there on page 9. To follow up, the point that Mr McIntosh made is that the benefits of indirect taxation reform will flow through much quicker in relation to recurrent purchases than they will with capital costs, because capital costs are something that might not be incurred until some later period of time. For example, petrol freighters or petrol tankers will not be renewed immediately.

Senator CONROY—Right, they are not running out to buy one on day one. I understand that. Thank you very much.

CHAIR—Thank you very much, Mr McIntosh, Mr Metcalfe, Dr Ogden and Mr Prosser. I thank very much the AAA for the assistance they have rendered the committee today.

[11.28 a.m.]

JUKES, Ms Janet, Coordinating Committee Member, Federation of Community Legal Centres (Victoria)

SCHETZER, Mr Louis Anthony, Policy Officer, Federation of Community Legal Services (Victoria)

CHAIR—Welcome. Mr Schetzer, you appear first on my list. I therefore assume that you are leading on behalf of the community legal services.

Mr Schetzer—That is correct, Senator.

CHAIR—Welcome to the inquiry. We invite you to address us briefly on your submission and then ask you to be kind enough to be available for questions.

Mr Schetzer—I propose to just give a brief introduction and draw on specific issues that we raised in our written submission. Our written submission was forwarded to the committee in late January and that submission, together with our evidence today, focuses on just one specific reference in the terms of reference for the committee, and that is paragraph 3(t)(iii) on the effects of the proposals in the tax reform legislation on the cost of access to justice. It is just looking at one specific narrow term of reference.

The written submission is in the form of raising issues which, to date, have not been raised or discussed in the public debate regarding the impact of the legislation and the fact that there has been insufficient information provided to deal with the issues of concern that we have raised. Our evidence today will be in a similar format.

The tax legislation is considerably complex and detailed. The resources of the Federation of Community Legal Centres are not sufficient, nor are there the skills available within the federation, to access the appropriate specialist skills required to provide a cost analysis of the effects of the legislation in terms of the issues of access to justice. That is the reason the written submission and today's oral evidence takes the form that it does.

Underlying both our written submission and the evidence that we will give today is a concern that, whilst there is a need for general tax reform in Australia, it must be ensured that such reform is achieved without any adverse effects or influences on legal aid and the delivery of legal aid services by its various providers. In particular, it must be remembered that the largest provider of legal aid services to the community is, in fact, the private legal profession and that care must be taken to ensure that changes do not present barriers to their provision of legal aid services.

This morning the evidence that we will present will focus principally on the impact of the new tax system on unmet legal need in the community and the impact of the new tax system on the capacity of private practitioners to undertake work funded by legal aid commissions. I will also briefly discuss issues regarding the impact of the new tax system on court filing and application fees. Ms Jukes will discuss the effect of the new tax system on administrative costs for community legal centres and the impact of the new tax system on

production and distribution of community legal education materials by community legal centres.

Our evidence will not deal with the issue of the status of legal aid commissions under the tax legislation. I understand that the Law Council of Australia will be providing a supplementary submission to the committee which will deal with this particular issue and will discuss it in some depth. They have indicated that there is some concern and that the status of legal aid commissions, as either charitable institutions or public benevolent institutions, is in some doubt. There is concern that the information provided in the single page fax sheet provided by Treasury that was entitled 'How will the GST apply to legal services?' is, in fact, incorrect. This is an issue of serious concern, and this must be clarified and remedied before the legislation is passed as it is potentially devastating to the financial position of legal aid commissions. Any GST borne by legal aid commissions will simply diminish the pool available for disadvantaged people seeking access to their rights.

The documentation from the government states that legal aid will be GST free. This is in fact an undefined term, and there is no acknowledgment that legal aid commissions are not the only providers of legal aid services and that the position of the largest providers of legal aid services, the private profession, has not been clarified. Will the various legal aid services that the private profession provides also be GST free?

Just as an introduction, the federation is the peak organisation of now 39 community legal centres in Victoria. In 1997-98 Victorian CLCs assisted in excess of 40,000 disadvantaged Victorians, approximately 60 per cent of whom were in receipt of some form of social security income, pension or student allowance. The remainder were either in receipt of no income or very low income derived from part-time or casual employment, and a small percentage were in full-time employment but required the services of CLCs due to the fact that they were supporting families or could not access the services of private solicitors due to lack of financial resources or other reasons that might present obstacles, such as age, gender, ethnicity, language ability, disability—those particular vulnerabilities. The people who accessed our services were, for the most part, ineligible for legal aid funded assistance provided by legal aid commissions, in accordance with the strict and narrow eligibility guidelines, and accordingly cannot afford the services of a private solicitor.

Looking initially at unmet legal need in the community and, in particular, legal aid matters that are not funded by legal aid commissions, as a result of the funding cuts to legal aid announced in the 1996 federal budget—\$120 million over three years—Victoria Legal Aid was forced to significantly tighten its eligibility guidelines in order to restrict the matters for which legal aid assistance would be provided. The result has seen an increase in the level of unmet legal need in the community, where people on social security incomes and low incomes are unable to access legal advice for certain matters.

The class of matters for which legal aid assistance is no longer available has dramatically increased in the last 2½ years as a result. This is enormously relevant to this inquiry as, whilst legally aided work of private practitioners and legal aid commissions may be classified as being subject to claiming input tax credits to offset the GST charges, there is a real problem with the large class of matters for which legal aid assistance is now not available due to the tightened eligibility guidelines. The national information scheme, with

which there are some problems, indicates that as a result of this there has been a 10 per cent increase in demand for services from legal centres since 1995-96.

As a result of the changes to the guidelines, more people have been forced to rely on the limited resources of CLCs or to endeavour to pay a private practitioner. This is what has been referred to often as unmet legal need. It has been acknowledged as a problem in the Senate Legal and Constitutional References Committee report last year on their inquiry into the Australian legal aid system. It is currently being investigated by the Office of the Auditor-General in Victoria. The recommendation of the Senate committee last year and of the Federation of Community Legal Centres and the National Association of Community Legal Centres is that there is a great need for an in-depth study on this issue of unmet legal need.

It also needs to be borne in mind that research undertaken by the Law Society of New South Wales and by the Law Council of Australia suggests that the effect of a GST on private solicitors' fees will involve a net eight per cent increase in costs which will be passed on to the consumer in the form of increased legal fees. This is assessed on the basis that for most private practitioners there is low level, non-labour input and that therefore the amount of GST that most law firms will be able to offset in the form of input tax credits will be quite minimal.

The federation is concerned that the new tax system will result in increasing numbers of people being unable to afford and access the services of a private solicitor for matters that are not eligible for legal aid by virtue of the eligibility guidelines. The gap between private legal service delivery and legal aid legal service delivery will widen, and the level of unmet legal need in the community—already regarded by many as at crisis level—will further increase. The flow-on effects of that will see greater numbers of people representing themselves in court. That will lead to greater court delays and court inefficiencies, such as have already been experienced in the Family Court, according to Chief Justice Alistair Nicholson.

The sorts of matters that we are talking about which are now ineligible for assistance under Victoria Legal Aid guidelines include such matters as equal opportunity and discrimination matters. On 12 December 1996, VLA introduced guidelines so that legal aid would not be provided for discrimination cases except where there was a strong public interest to be gained. According to one of our member centres, the Disability Discrimination Law Advocacy Service, all applications for assistance for discrimination complaints were being refused, even where there was a strong public interest component in the matter. Complainants in such matters were often forced to privately fund their applications. It is our submission that there is a real risk that the new tax will place such an option out of reach for many prospective applicants.

VLA guidelines also exclude employment disputes. Currently, there is no provision for legal aid to be available for employment disputes such as unfair dismissals, claims for unpaid wages and breaches of employment contracts. Potential litigants have to pay for the services of a private solicitor. Again, there is concern that this option will be closed for many under the new tax system.

On immigration matters, particularly asylum seekers, lack of access to legal aid funding on these matters, together with severe funding cuts to the Refugee and Immigration Legal Centre—again, one of our member centres—has resulted in a reduction of legal aid assistance for asylum applications by 90 per cent. So asylum seekers are now, in the main, forced into a position of having to pay a private solicitor for their applications.

Summary criminal law matters have been given great attention. The current eligibility guidelines for Victoria Legal Aid are that if a person is pleading guilty in the magistrate's court they will only be eligible for legal aid if the likely penalty is at least \$750 in fines, an intensive corrections order, in some situations a community based order or a term of imprisonment. In respect of first-time offenders for summary charges—driving offenders, offenders who are candidates for good behaviour bonds—there is no access to legally aided representation, and these people have to again try to seek the services of a private practitioner.

Debt and bankruptcy matters, motor vehicle accident property damage, tenancy disputes and other civil disputes for amounts less than \$5,000 are matters which involve substantial work of community legal centres in giving initial legal advice, initial advocacy or assistance and then appropriate referrals to a private solicitor or, alternatively, advice on how to represent themselves. An anticipated eight per cent increase in private practitioners' fees will again remove this option of referral for these types of clients. These are just examples of the types of matters on which disadvantaged people are often forced to consult a private practitioner due to the restrictive legal aid eligibility guidelines. It is in these types of matters that the option of employing a private solicitor will become financially inaccessible for many. I would be more than happy to provide the committee with a dossier of individual case studies giving examples of this type of subject and case matter.

In late 1996, the federation conducted an extensive survey of private practitioners in Victoria regarding the impact of tightened legal aid eligibility guidelines—68 per cent of respondents indicated that their clients had to either sometimes, often or very often incur debts or financial hardship in order to cover their legal costs due to the tighter legal aid eligibility guidelines.

CHAIR—Mr Schetzer, I am just wanting to balance the desire of the committee to ask questions with your obvious responsibility to present your case properly. How close to concluding are you?

Mr Schetzer—I have just two brief points to make in conclusion.

CHAIR—Okay. Please proceed. I am not wanting to cut you off because you obviously have a responsibility, which we acknowledge, but we are under time pressures. We are falling behind.

Mr Schetzer—I understand. I will be quick. Ms Jukes will have a few comments as well. Private practitioners are the largest providers of legal aid services in Victoria. In the main, private practitioners who provide these services are in fact small to medium size practices which can be better characterised as small businesses. There is great concern that legal aid grants of assistance as they currently stand are insufficient to cover the costs for

private practitioners to undertake this work with increased administrative costs involved in terms of reporting to the tax office either monthly or quarterly under a GST. There will be even less incentive for private practitioners to undertake legally aided assistance work.

Finally, the matter that I will address is directly the issue of access to courts; there has been no information provided as to the impact of the legislation specifically on court application and filing fees. In the last three years we have seen significant increases in these fees already in relation to Family Court applications, Supreme Court originating motions, access to the Administrative Appeals Tribunal and also, with the removal of hearing powers from the Human Rights and Equal Opportunity Commission to the Federal Court, there will now be fees involved with those applications as well. There is no indication at this stage as to the impact of the tax on these particular filing fees.

Ms Jukes wishes to address the committee on specific issues regarding community legal centres and legal education materials, which are quite important as well.

Ms Jukes—Just very briefly I will make two quick points. Firstly, community legal centres are not-for-profit community organisations. That means that we undertake a range of activities as well as providing legal assistance to people and advocating on behalf of legal aid. We also try to provide community legal education materials and information to people to try to keep them out of the legal system and to try to keep them away from lawyers so it does not cost a whole lot of money and clog up the courts.

One of our concerns is the definition of not-for-profit organisations and the difference between charitable activities and commercial activities. Some of these materials are sold at a cost price to cover the costs of production or for self-funding projects. We are concerned that these materials might become, with the imposition of a GST, inaccessible to the large number of people whom we service who do not have money or who are very poor. That is the first point.

The other point relates to the definition of education. We also provide a range of seminars, conferences and symposiums around particular issues aimed at people such as youth workers, domestic violence workers, and refugee workers who work with the economically disadvantaged. For example, the Fitzroy Legal Service, which is the organisation that I work with full time, provides seminars several times a year around Alphaline, which is an emergency advice service for young people in trouble with the police and in custody. It is aimed specifically at youth workers. We charge a minimal fee to cover the costs of running such services. Whether they would be GST free is the question. If not, again, it will make it more difficult for people to access those educational facilities and information. Essentially, they are my two points.

Senator GIBSON—I have only one question. You mentioned that the Law Council was going to put a submission in to this committee with regard to the government's advice or notes. There is an annexure here with regard to what they call public benevolent institutions and whether the government's advice that went with the ANTS package was correct or not. Have they made a submission directly to the Treasurer's office about that?

Mr Schetzer—My understanding is that they have had communications with both the Attorney-General and Treasury. They have undertaken further specialist research into the issue. I do not want to pre-empt their submission. From my conversations with them in the last week, I understand that they will be providing a supplementary submission dealing with that concern.

Senator GIBSON—It is more important to deal directly with the government if, as you say, there is some concern about what the government has said and about the legality of that. I urge them to do so urgently.

Mr Schetzer—I can certainly pass on their concerns and pass on that issue to them. My understanding is that the release or the forwarding of the submission and their dealing with the government is imminent.

Senator MURRAY—Is your federation part of a broader Australian group?

Mr Schetzer—The Federation of Community Legal Centres is a state based peak body for the 39 community legal centres. We are affiliated with the National Association of Community Legal Centres, which is comprised of individual state representatives representing the various legal centres in each state.

Senator MURRAY—Did the national association make the same approach to the government? Have they heard from the government?

Mr Schetzer—My understanding is that the national association has participated in and had input into the submission provided by ACOSS and that the main focus of their submission has been on the impact of the changes.

Senator MURRAY—You have made the point that you wrote to the government on 24 August 1998. Five months later they gave you a response—in January 1999—and you still have not heard from the government. The government may have decided to respond to the peak Australian body.

Mr Schetzer—They have not.

Senator MURRAY—That is what I need to know. Are these issues coordinated so that the government is not getting different messages from different state based bodies as compared with the Australian body?

Mr Schetzer—Absolutely. I have had regular communications with the national association on this issue both directly and through our state representative. The government has not addressed our concerns at that level either.

Senator MURRAY—I think you indicated that you are familiar with the three reports on legal aid by the Senate committee.

Mr Schetzer—Yes.

Senator MURRAY—It is apparent from what you have said that your main fear is that the unclear or inconsistent application of legal aid may further reduce the ability of an already very overstretched system to provide services. Is that correct?

Mr Schetzer—That is correct.

Senator MURRAY—The legal aid reports did indicate that there had been some benefits from the government's package. Namely, it had encouraged a far more cost-efficient approach, better computerisation, better systems and so on. Generally speaking, the legal aid community tries to get maximum value for the dollar; that is essentially the motive of the various bodies providing legal aid. Is it your opinion and feeling—you do make a big issue of administrative costs—that the legal aid providers are now sufficiently computerised and equipped to relatively easily take on the GST burden? I ask you that question deliberately because we are being advised that, now that Australia is much more computerised than it was, business finds it easier to take on the new system. I know that legal aid services are better computerised than they were, so I ask you the same question.

Mr Schetzer—You need to look at the impact specifically on community legal centres, as opposed to legal aid commissions. We represent community legal centres. The level of computerisation has only been enhanced in the last 12 months.

Ms Jukes—I am the coordinator of the Fitzroy Legal Service; that is my paid job. We operate a small legal practice which runs almost entirely on grants of legal aid. It would mean a significant increase in the administrative burden. Basically, the practice is running on a manual trust account system. It is not running in a computerised way. That would be the case for many small practices, particularly in the area of criminal law, which survive primarily on grants of legal aid to run their business.

Senator MURRAY—Where would you fall between these two extremes? We have had a New Zealand experienced business person say that every period—I think it is bimonthly—it takes him two to three hours to produce his GST returns. In contrast, Mr Ray Regan, the head of one of the activist tax accountants organisations, says that this process could take up to 250 hours; I think that is the feeling. In terms of hourly damage, would you be able to assess that? Is it possible to say?

Ms Jukes—It would be very difficult for me to assess that when I do not know what the tax office would require from us. For example, at the moment, we are a public benevolent institution, so we do not have to pay sales tax. As I understand it, the way that the GST would work is that we would have to pay tax and then submit to the tax department for tax credits. That is obviously an administrative burden that we do not have to wear at the moment. If we need to have an itemised account for the tax department and to tell them exactly what tax we have paid on every single item we have purchased, that would be a huge administrative burden. It would be an extra journal entry on the computer system for every purchase. We would then need to submit that. I imagine that that would mean an enormous increase in our administrative charges, given that we do not have any in relation to sales tax at the moment.

Senator MURRAY—Do you know what your average labour cost per hour is over the entire service you provide?

Ms Jukes—Again, it is difficult. No, I do not know the answer to that question because most of our services are provided by volunteers. We have 160 volunteers at the Fitzroy Legal Service.

Mr Schetzer—There are 700 across Victoria.

Ms Jukes—Most of our services are provided by volunteers. The Fitzroy Legal Service only has 10 paid workers and a part-time administrator-bookkeeper. Obviously, there would be an increased financial burden for us and other community legal centres in administering the tax. We would effectively become collectors of a tax which at the moment we do not need to deal with at all in terms of the sales tax.

Senator MURRAY—I will give you the thrust of my questioning. It is important for the committee as far as possible to get a grip on the real impacts. People mention administrative tasks and so on. Let us assume that your average cost is \$50 per hour. I do not know what it is; I am just giving you a figure. If, based on the example of the New Zealand business person, it were two to three hours every period—say it is 10 hours per year—that is a cost of \$500. If on Mr Regan's example it were 250 hours per year, you would then be looking at \$7,500 per year. That creates a great deal of effort. If it were \$7,500 per year, that would be \$7,500 less that you could use for legal aid. If it were \$500 per year plus the software costs, that would not be overly burdensome.

Ms Jukes—What makes it difficult for me to answer that is that I do not know the way the tax department will require us to provide the material to them. If they will require an itemised account, I can tell you that it will mean a journal entry for every bill we pay.

Senator MURRAY—I presume that the legal aid commission is in New Zealand.

Mr Schetzer—That is correct.

Senator MURRAY—Could you do us a favour and ask them how many hours burden they think it is in New Zealand and what they estimate the administrative cost under their system is? I realise that it is not the same system as ours. Let us see what they have to say. Perhaps you could then have a crack at estimating it for us, if that is possible, so we can get a grip on what it means.

Ms Jukes—We will do that.

Mr Schetzer—The other relevant issue is the issue for private practitioners. About 66 per cent of private law firms—particularly those undertaking legal aid work—employ fewer than five people. We are looking at very small businesses. We are not talking about, even in terms of private legal aid service delivery, large corporate law firms. So the impact there could be quite significant as well.

Senator MURRAY—Off the cuff, I am assuming that New Zealand would probably have a similar set-up to you with community legal aid centres and so on. Hopefully, we can get some kind of guidance.

Mr Schetzer—I will undertake to contact the New Zealand secretariat to ascertain that information.

Senator MURRAY—Thank you. I appreciate it. You might like to note that there is a proposal afoot to make sure that educational texts, such as those you outline, are made GST free. That matter will be pursued in the parliament.

CHAIR—Essentially, the nub of what you are saying, as I comprehend it, is that access to justice in a modern democracy should be equal for all. Legal aid exists to help people who cannot afford to be defended in legal proceedings. Funding for legal aid has declined and demand for legal aid has increased. The GST comes along and applies added costs on you. It means that the services you provide are less in the face of increasing demand. What does that mean at the end of the day—that more people go to gaol?

Ms Jukes—Or more people do not have the opportunity to exercise their rights under the law and so they just walk away from unjust situations with no ability to even come before court.

Mr Schetzer—The impacts vary depending on the area of law. In terms of family law, the impact of unrepresented litigants in the Family Court means protracted court proceedings, potentially exposing children at risk to further risk. It involves enormous stresses on the judiciary, which have to actually get involved in assisting unrepresented parties to advocate their cases. There are greater delays in the court system. In civil disputes, likewise there are greater delays in the court system. Essentially, one of the most important aspects of legal aid service delivery is that it allows early intervention where matters can be resolved without litigation.

Senator GEORGE CAMPBELL—Another major issue of concern which came out of the legal aid inquiry conducted by another Senate committee was that of criminals going free. That was a result of an inability to prosecute the case because of long delays and an inability to access legal aid.

Senator MURRAY—Because of the Dietrich principle.

Mr Schetzer—That issue specifically refers to the expensive criminal trials guidelines of various legal aid commissions. I can speak in relation to Victoria Legal Aid guidelines in that respect. The lack of funding or adequate resources to fund expensive criminal trials often results in the prosecutions being stayed.

Senator CONROY—We have seen that recently in a couple of cases.

Mr Schetzer—Yes, particularly in some of the lengthy and complex drug cases and some of the tax fraud cases or other white-collar cases.

Senator GEORGE CAMPBELL—So we could see that exacerbated by this?

Mr Schetzer—Potentially, we could see that exacerbated not just at the superior court level but also at the magistrate's court level, where there will be increasing numbers of people unrepresented. In the magistrate's court there is no provision to have proceedings permanently stayed. Magistrate's court proceedings are regarded as being more informal. But you will see an increase in unrepresented litigants in that court. That is already an existing problem within the magistrate's court jurisdiction.

Senator GEORGE CAMPBELL—That has major implications for the issue of justice within our community and the denial of justice to individuals.

Mr Schetzer—Absolutely. Our member centres mainly deal with the magistrate's court jurisdiction. The initial research we have undertaken shows an increase in unrepresented defendants in criminal matters and litigants in civil matters in the magistrate's court.

CHAIR—What you are portraying is a situation in which more people are frustrated at not having access to justice. Is there a link between the level of frustration people feel in having their rights not met with other antisocial behaviour, ranging across the spectrum from suicide to other acts of illegality or protest? To the extent it means that there are more convictions than otherwise would have been the case, this means that state governments running the penal system have to pick up a bigger tab. The loss of funding up front creates a cost up the back which the taxpayer has to meet. Do you have any indication of what that might be? If there are figures available, I would be interested—I am thinking aloud now—in finding out the hidden cost of a GST to state governments in having to meet those costs.

Senator GIBSON—Before Mr Schetzer replies, I want to point out to the committee that, in annexure 1 of their submission, the facts sheet from the ANTS package points out that most legal aid services will be GST free.

CHAIR—That is a fair point.

Mr Schetzer—As I indicated in the oral evidence, the issue of private solicitors providing legal aid services which are ineligible under legal aid guidelines has not been clarified. The issue of what is GST free is still undefined or is unclear. A recent survey has just been completed by the Fitzroy Legal Service. It looked at community agencies working with people who are having trouble accessing legal representation and issues of frustration, stress and the exacerbation of problems as a result of a lack of representation has just been completed and the data is in the process of being analysed.

Unfortunately, the organisations that are dealing regularly with issues of unmet legal need are also the organisations that are least able and resourced to undertake intensive studies and research of this kind. That is the very reason that the national association and the federation have strongly submitted the need for an inquiry into unmet legal need and the related impacts that that has on the community. As soon as information from the Fitzroy Legal Service studies is available that could be forwarded to the committee.

CHAIR—It seems I have stolen the thunder of my colleague Senator Campbell—I apologise for that.

Senator GEORGE CAMPBELL—Senator Gibson referred to the annexure on how the GST will apply to legal services. I notice that it says ‘most legal aid will be GST free’—it does not say ‘all’. The implication is that there is going to be some component of the legal aid services that the GST will be applicable to. Do you agree with me that, in fact, that will be a de facto cut in the legal aid budget because the money will simply go straight back to the government?

Mr Schetzer—Absolutely. The issue as to what is defined as GST free and what is not is one of great concern. As I indicated, it seems to acknowledge only the services provided by legal aid commissions or legal aid commission referred work to the private profession, but does not deal with the issue of, as I said, matters that fall outside legal aid eligibility guidelines which are often picked up by the private profession at reduced rates. That is significant pro bono work that is undertaken by the private profession.

Senator GEORGE CAMPBELL—At the end of the day, irrespective of what is taxed or not taxed in terms of legal aid services, if there is a tax applied at all, that will be a de facto cut in the legal aid budget?

Mr Schetzer—Again, without wanting to steal the thunder of the Law Council of Australia, the concerns are that, if the status of legal aid commissions is unclear and legal aid commissions will have to bear a GST cost out of existing budgets, then that will reduce the overall pool available for service delivery.

Senator GEORGE CAMPBELL—Mr Schetzer, you wrote to the Attorney-General on 24 August. I note that you received a reply on 4 January which refers to a letter of 22 October. I assume that that is the same letter?

Mr Schetzer—The letter of 22 October was a reminder letter acknowledging that the letter in August was sent in the height of an election campaign and there may not have been an opportunity to respond at that time. So the October letter was a follow-up correspondence.

Senator GEORGE CAMPBELL—I see. I note that the Attorney-General had said he referred your letter on to the office of the Treasurer. Have you had any response to those issues that you have raised in that letter from the Treasurer’s office?

Mr Schetzer—No, I have not.

Senator GEORGE CAMPBELL—Have you had any indication of when you are likely to receive a response?

Mr Schetzer—Only by telephone conversation with Ms Adele Byrne of the Office of the Attorney-General. She indicated that they are processing the request and were looking at it as soon as possible. There was no specific indication as to when a response would be available.

Senator GEORGE CAMPBELL—It is still pretty much up in the air in terms of the issues you have raised?

Mr Schetzer—Yes.

Senator GEORGE CAMPBELL—You may or may not be able to answer this, but there is an increasing practice within the legal profession to carry out work on spec—if you like to use that term. In other words, if the prosecuting is successful they get paid; if it is not successful they do not get paid.

Mr Schetzer—Contingency fee basis type arrangements.

Senator GEORGE CAMPBELL—What are the likely implications of the GST for those sorts of services?

Mr Schetzer—I do not feel I would be in a position to answer that. It would be more appropriately directed to the Law Council of Australia or the peak private professional bodies. Community legal centres as such do not have experience in contingency fee type arrangements.

CHAIR—Just on that final point, if a judge awards costs in a hearing, who pays the GST?

Mr Schetzer—The award of costs that are made by the judge in the course of litigation is what is known as ‘party party’ costs according to a fixed scale. Those party party costs are, in fact, not the full amount of legal costs billable by a private practitioner. The excess is what is known as ‘solicitor client’ costs and it is that aspect of solicitor client cost which would incorporate the GST component. It would be my expectation that it would still be the client of the solicitor who would be bearing that GST component; that it would not necessarily be the unsuccessful litigant. Again, that would be my understanding of the process.

CHAIR—Or a judge might say that there is a GST on this so he would up it by 10 per cent in order not to pass it on to the client.

Mr Schetzer—I would be hesitant to speculate on that.

CHAIR—Thank you very much and thank you for providing assistance to the committee in the manner in which you have done.

[12.11 p.m.]

FIREK, Mr Marcin, Executive Director, Baking Industry Association (NSW Employers), and Bread Manufacturers Industrial Association of Australia

CHAIR—Welcome, Mr Firek. We invite you to address us briefly on your submission, having regard for the fact that we have got it in front of us and have read it, and then be available for questions from the committee.

Mr Firek—I make this submission on behalf of not only the New South Wales Baking Industry Association but also our federal body, the Bread Manufacturers Industrial Association and the constituent state members. I would like to address three issues in this verbal submission: firstly, why we believe that one flat rate of tax with no exemptions should be the way to go with this—that is, no exemptions for food. Secondly, I would like to say why, if that does not go through, we would oppose different treatments of various sectors within the food industry. And, thirdly, I would like to address our concerns regarding compliance costs, particularly for small businesses.

Like most employer organisations, we are broadly supportive of the government's tax reforms and the proposal here. We support the moves to eliminate a plethora of taxes—wholesale sales taxes and all those other things—to simplify the reporting requirements for small business and generally to compensate people across the whole spectrum of the economy.

The way we see it, this is a package that we have been waiting for for a long time. We support food being taxed at the 10 per cent rate and we do not support any special exemption for food whatsoever. The reason we do that is that we believe the tax system must have some integrity to it. We cannot see how you could pull \$5 billion of food revenue out without a plethora of other industries clamouring for similar treatment. Before you know it, we could have a situation where the whole proposal is compromised. We have waited a long time for a system that is simple, transparent and easy to administer, and that is why we are supporting the current proposal by the government.

We would like to see an end to, under the current sales tax system, the expensive litigation that we see regarding, for instance, whether something is self-raising flour or flour, which, of course, affects the rate of tax it is taxed at, and the constant questions of classification as to whether something is taxed at one rate or another. We think that a simple, transparent system where we simply subtract the tax paid on the inputs from the tax charged on the outputs and remit the difference to the government is the simple solution. Such actions, we feel, would see cost savings cascading throughout the system.

However we realise that politics may sometimes come into play and I know that there are a number of proposals for exempting food from the impact of the GST. We would like to address the committee on the difficulties that we see with them. Again, we would like to urge you to not go down this path. The overseas experience shows that trying to define foods one way or another, in or out, is very difficult and prone to high costs. We, as an association, are yet to see a single proposal in Australia that does not involve too much confusion.

One proposal that we have seen—and I think there has been a lot of speculation in the newspaper, and I cannot really direct the committee's view specifically to it—has been that certain essential foods be exempted from a GST. We have great concern with this and we think that, really, it is an unworkable proposal. All that we can see happening in such a situation would be hundreds of prescriptions and government regulations about what can and cannot be an essential food at a time when, for instance, the Australia New Zealand Food Authority is moving away from regulating what we should be doing.

Take bread as an example. Most people would say that a loaf of bread is a pretty essential food, but we have to define what bread would be. We would say a simple loaf of bread—that is fine—but the devil is in the detail. Here we are concerned about what happens when our shop wants to run cheese over the top of the bread loaf or diced vegetables or bacon or similar things through the dough. That might sound like a very pedantic thing for me to say, but what if we want to make the loaf of bread a non-standard size or actually make it not really a loaf of bread but something else—maybe an animal shape or something like that.

The concerns that we have are that at some stage there is a continuum where, if we perhaps put some icing sugar on the top of it, somebody will say, 'That is no longer a loaf of bread.' The same applies to pies, cakes, croissants—there are a myriad possible combinations that we are talking about here—and we would need a ruling on every single one of them. I am not trying to overstate the point here but we could have a regulation specifying how much per cent of meat can go into a loaf of bread before it is no longer a loaf of bread and becomes something else. We have bakers trying to comply with all of these things. We are concerned about this sort of a prescriptive approach and that is why we do not think you can say something is essential. A loaf of bread you would think would be an easy example, but it is very easy for a loaf of bread to drift out and come out as something else.

Another proposal that we have seen exempts food on the basis of where and how it is sold. For instance, the argument has been run that for an expensive restaurant such as Level 41 in Sydney or The Loose Box or something like that—they are expensive restaurants—people who dine in such a place are relatively well off and they can afford to pay GST and everything else should be excluded. Our biggest concern with this argument that food service establishments should be taxed, rather than establishments that just sell food, is that there is a direct progression from these expensive restaurants to the small corner bakery in a country town where the local person just puts out two or three chairs and a table and he is just selling bread rolls and croissants to people.

If the committee recommends, for instance, that food service be taxed on the argument that only people who are better off spend a large proportion of their income eating out, you would have a situation where, for instance, you could walk into a shop and ask to buy a meat pie, and depending on whether you wanted to buy it hot or cold, or whether you wanted to eat it inside or outside, or whether you wanted to buy five or 10 or one, you would have a different price, and that is something that we would not like to see happen.

It is an important point, especially for small businesses. Our association covers people from the large end, at the Goodman Fielder, George Weston food level but, in New South

Wales alone, there are 1,200 country bakeries and these are not bakeries with expensive computerised cash registers that can easily register things. These are places that are run by one or two people and, to expect them to comply with this incredibly onerous level of regulation is, we believe, a difficult thing to do.

Senators, you have already heard many other groups in the food industry saying that we want food to be included in the GST. We, as a baking industry, would like to add our voice to this chorus. At the end of the day, it is the compliance and it is the confusion with the compliance and the devil of the detail which will hit small businesses the most. And more, it will hit the country bakeries in our industry the most, and the result can only be higher prices and really lower employment.

Our industry covers what we think is the most basic staple food group. If we are going to be hit by the confusion over what is or what is not food, we think that other industries will be hit a lot more. Therefore, we would ask you to take what we think is a good package. It is a simple package; it is a transparent package. It takes away all the difficulties involved with the current system and provides, we think, the opportunity for growth, jobs and equity. That is our submission.

CHAIR—Thank you, Mr Firek. I have a quick question to begin with. The nub of your submission, as I comprehend it, is that, if you were to take food out of a package, there would be extra costs which your bakeries would then have to pass on to the consumers and you think that would be unfair?

Mr Firek—That is substantial costs.

CHAIR—Substantial costs?

Mr Firek—Yes.

CHAIR—Why then do you support taxing your product when it is not taxed now—taxing it by 10 per cent and passing on a substantial cost to consumers? Why is one fair and the other unfair?

Mr Firek—There are two aspects to that. Obviously, there is a compensation package that has been developed. We have not got economic modelling. We are a small association representing small bakers. We cannot commission expensive studies. But we believe that the compensation package being provided, together with the cascading lower costs as a result of increased simplicity, will be such that they outweigh any price increases that would come from adding a GST.

CHAIR—Are you putting to this inquiry that cascading lower costs, to use your term, will mean that a product, for example a loaf of bread which, under this package, will be taxed by 10 per cent—take out a few input costs, maybe a real outcome around eight per cent—is cheaper with a 10 per cent GST than without it? Is that what you are putting to us?

Mr Firek—No, Senator. I think you really have to look at the package in the whole—

CHAIR—I am not going to the compensation part. I am just going to the cost of your product to consumers. The compensation part is arguable from a number of other issues. But, if you take it and accept it blind, you can make the point that you have made. Although, I might say, many consumers would be interested to hear about the compensation in tax cuts at gross level as advertised to them as an advantage, without being told what the net effect of the tax cuts are after all the clawbacks are made, as would be the case with food. But, looking at that and the issue of your product, you are not putting to us, are you, that your product will be cheaper after a 10 per cent GST than before it?

Mr Firek—No, Senator. To make a comment on that, I have yet to see any studies, and obviously we have not commissioned them, that talk about an eight per cent price impact—

CHAIR—That is a figure I plucked out of the air; I do not think there are any studies. I was trying to work out, with cheaper fuel and a few other things like that—

Mr Firek—If I could restate my position—and I understand what you have said—we believe that, yes, in looking at the package as a whole, prices will increase by some amount—we do not think that it is a substantial amount—but we are happy and satisfied with the fact that we do not think people will be adversely affected and, more importantly from our point of view, our business sales will be affected.

CHAIR—What about people at lower income levels? You are admitting now that there will be a higher price. We have heard consistently from all the welfare agencies that people at lower income levels have no discretionary income to afford cost increases. How can you say that they will not be affected? They all consume bread.

Mr Firek—That is correct, Senator, and I can only say to you again that I understand there is a compensation package which is aimed at that.

Senator GIBSON—Mr Firek, we are pleased to see you today and to read your interesting submission. It is a pity you did not bring a bag of hot pies and cold pies with ‘UK’ marked on it, seeing that it is just about lunchtime. It would be interesting to see which senators took the cold ones and which ones took the hot ones. Anyway, you have made your point about the complication with food in the UK and the Canadian example of six or more donuts. Can I just point out to you that in the ANTS package the Treasury estimate for flour, milk products and cereal foods is a cost reduction of 3½ per cent, and it is also 3½ per cent for bakery products—to follow on from the chairman’s questioning of you about the GST impact on your products.

Isn’t it true that with the \$13 billion of income tax cuts the person on average weekly earnings will in fact end up with \$40 to \$50 of extra spending money in his pocket? Won’t that be important to your association and to your members?

Mr Firek—I cannot comment on the modelling angle of it but, as Senator Cook said, the people in lower income groups will receive that money and they will spend it. We think \$40 or \$50 is a more than adequate compensation package at that level. We think the package that is coming in will certainly satisfy any potential price increases. I do not know if it is 3½

per cent, but, yes, that is what we expect: we expect the compensation package will outweigh any potential price increases.

Senator GIBSON—I think you have made it very plain in your written submission, which is very clear, about the complications of defining food—what is in and what is out—and I think your examples about the plain loaf of bread and complications make the point very clearly indeed that your recommendation is that all food should be included in the GST net. Thank you for making that clear.

CHAIR—Senator Watson, did you have a question?

Senator WATSON—No, I just concur with the comments made by Senator Gibson.

Senator MURRAY—Mr Firek, I understood you to say that you were a small business organisation?

Mr Firek—We have members across the whole range but, yes, small business is a very substantial portion of our membership base.

Senator MURRAY—The majority?

Mr Firek—Yes—overwhelmingly.

Senator MURRAY—How many members do you have?

Mr Firek—In New South Wales we have 450. The Queensland association has 550. The Victorian association has 500. I cannot comment on South Australia, Tasmania or Western Australia, but I think that gives you an idea.

Senator MURRAY—Are you speaking on behalf of all of them or for the 450 in New South Wales?

Mr Firek—I am speaking on behalf of the federal body, to which all of the state associations are members; and the New South Wales body, which is the body that employs me.

Senator MURRAY—I notice a remark in your submission where you refer to the big attraction of the GST for small businesses. Have you asked your members this question: do they support the GST; do they want a GST?

Mr Firek—Yes, we have surveyed them. The points they make at the moment are two: initially, they really did not know how it would operate—and I cannot give you a statistical breakdown of it right now, although I would be happy to provide a breakdown of that at a later date if that is appropriate.

Senator MURRAY—Yes, you can.

Mr Firek—I would be happy to provide you with that statistical breakdown.

Senator MURRAY—I am really interested in how many are for the GST and how many are against, because I assume that not everyone is supportive of a GST.

Mr Firek—I will provide you with the statistics, but I would say that the overwhelming view is that they would like to see a GST implemented and they would like to see a simple GST with as few exemptions as possible.

Senator MURRAY—I am not sure whether my recall is correct, whether it was Yellow Pages or another survey, but there was a survey that was reported on the AAP some time back which said that half of small business wanted the GST and half did not. I would be interested in not only knowing what your split was but also if your split is different, why your industry would be so much more in favour of a GST than would seem to be the case with other industries?

Mr Firek—The reasons that I have outlined today give you an idea as to why our industry would have the view that it takes. I cannot speak for other small business groups directly and I cannot really speculate as to what they were or were not thinking. What I can undertake to you is to provide the committee with the information that I have from our survey of our members.

Senator MURRAY—So this remark, the big attraction, the GST for small businesses, did not refer to small business as a whole, just to your small businesses?

Mr Firek—It refers to the small businesses that we have exposure to.

Senator MURRAY—The next thing I am interested in is your level of computerisation. I think I heard you say that most of your members are not computerised, operate manual systems and are one- or two-person businesses. We have had evidence that, even if the GST goes through as it is at present, there are very considerable compliance costs and start-up costs for those who are not computerised. They will need to buy computers; they will need to buy the software that goes with those computers; they will need to have accounting advice; they will need to have training, and there will be substantial initial costs. Does that evidence we have received sound right to you?

Mr Firek—Putting aside my comment on whether it sounds right or not, it would be a lot worse under a system where you have to differentiate between a number of different items. Our industry is a high volume, low cost industry. Our items are cheap and we make a small profit margin on things by turning over a lot of products. On that sort of a high turnover, it is a difficult thing to expect non-computerised businesses to have to differentiate on a constant and regular basis between items.

As for your comment regarding the advice that the committee has had on the start-up costs, we do not see them as that substantial. The attraction for us of a simple system with a single rate, with a minimum of exemptions, is that when you remit to the government, it is a simple GST paid on inputs and outputs, and the balance is remitted back to the government.

Senator MURRAY—I do not understand this really. You are a business association, and you are telling me that you are a low margin operation and that your members are very cost

sensitive. We know from the government's law that persons incurring costs with the GST will not be able to pass those on because the government is going to expect prices to reflect purely the GST element. You are telling me that somebody has to buy computer hardware and software which they do not have at present, get trained, incur all the expense of getting into the new system—and even with the GST unchanged, many thousands of dollars expenditure will result; nobody disagrees about that result, not the government, not ourselves, no-one. Yet that really does not matter much to your members?

Mr Firek—No, I am saying that I do not think our members would do that. Our members, especially the smaller ones, will not buy those computers. The remittances they will make will be based on the only way they can do it. They will not be able to afford to bring in computers. Obviously, most of them would have accountants. We like the proposal with the minimum of exemptions for that very reason that they will not need to make those cumbersome and expensive distinctions between products. What we were saying is that, if you do for instance treat food by having some of it in and some of it out, that is what is going to be very expensive. That is what is really going to impose very substantial costs on small business and I can assure you they will be passed on.

Senator MURRAY—They will be passed on. So if the ACCC comes into your members and disciplines them for passing on prices, are you going to feel unfairly done by?

Mr Firek—I do not think the ACCC will prosecute us if we have high operational costs. We are not talking about passing on a GST and not passing on the full savings or anything like that. We are talking about businesses having higher operating costs.

Senator MURRAY—The Australian Food and Grocery Council agrees with you. They believe that food should be taxed and there should be no exemptions. However, they say that, if food were to be made GST-free, it is either all in or all out. Would you agree with that approach?

Mr Firek—We would argue that it should be all in.

Senator MURRAY—They have argued that it should be all in. My question to you is: if it were not to be all in, do you believe it should be all out, rather than have a definition which, for instance, ends after restaurants and takeaway food?

Mr Firek—To answer your question in a roundabout way, not deliberately trying to be difficult, the instructions and the belief that our associations have is that we would like the GST to apply to all products. We do not wish to seek exemption because we believe that the tax system will work with a minimum of exemptions. If one industry pushes for exemptions then others will follow. That is why we are not arguing all in or all out; we are arguing all in.

Senator MURRAY—You leave the hard decision to the Senate and the government. A \$40 billion industry, which is the Australian Food and Grocery Council, says they want it all in as you do, but they at least have the courage to say that if there were to be a definitional concession in the legislation then they would prefer it all out. You are going to leave us in a situation with absolutely no guidance whatsoever. If the government were to concede that

food should be partly or totally made GST free, where would you join the line as an organisation? Are you simply going to throw up your hands and say, 'We don't care'? You have to give an answer to that question, surely.

Mr Firek—Neither of those options is an option that we would like to see happen. We do not think they are optimal options. We are very concerned about the very substantial costs if parts of food are exempted. But we are also very concerned when we are talking about \$5 billion year in, year out being taken out and what that does to the whole package, as it were. We have not commissioned economic modelling and we are a lot smaller than the grocery council. My instructions, and the opinion of my board and our members and all the discussions that we have had, are that we would like a simple, transparent system where just one rate applies to everything.

Senator MURRAY—Have you read the first Senate report, which I think would be available to you free of charge?

Mr Firek—I think your office has provided me with your part of it.

Senator MURRAY—Good. Okay. We are quite efficient. Mr Firek, nobody disputes—including those who are proposing food be made GST free—the complexity and definition of arguments you have outlined. It is commonsense that it will be a problem. The difficulty for the committee and those who have political differences on this matter is that we have to weigh up the simplicity argument versus the equity argument. Today we had before us ATSIIC representing Aboriginal and Torres Strait Islanders, and their submission today focused on rural and remote Aboriginal communities, although not exclusively—they did comment on urban communities as well. They have done a survey which indicates that in rural and remote Aboriginal communities food constitutes 40 per cent of household expenditure, and they have asked that food be GST free.

When we weigh up your understandable business concern for simplicity versus their concern for fairness and a better deal for their people, how do you think we should be dealing with those two issues—particularly because I know you have made the remark about compensation—when they are clearly of the opinion that the government's compensation package is inadequate, and in fact they want it doubled?

Mr Firek—Senator, I was not here to hear their testimony. The concern that we have is that, when you talk about \$5 billion of food and exempting food from the GST for equity reasons, we think that is not a very highly targeted way of addressing that concern that you have just raised to me. I am not an economist and I cannot say to you how it will be better, but our concern is that just not taxing food at all does not really address the point that you have made either. I think there are a number of studies which show that food is consumed at different rates amongst different income groups, and I am not sure that exempting food holus bolus is the answer.

Senator MURRAY—My last question to you is as follows. Out of 27 OECD countries, at the moment 23 zero rate or variable rate food—that is, 700 million people. We have 18 million people in Australia and very few of the people coming before us have ever run a business under a VAT regime which has food differentially rated or zero rated. Why do you

think that it will be so difficult for our 18 million people to do what 700 million people do, and that is zero rate or variably rate food? Why do you think Australians are not capable of dealing with this issue when 700 million people can? On what grounds do you use words like 'nightmare', 'impossible' and so on? Have you run a business in those countries which zero rate or variably rate? Why do you think, just because it is new to all of us, that we cannot do the same as those countries?

Mr Firek—What I am saying is that the additional costs are going to be exceptionally high, and that is our big concern. It is not going to be impossible to run a business. What I am saying is that the costs are going to be very high, and just because other countries do it and experience high compliance costs does not mean that we should follow down that track. Indeed, our submission is that we should learn from the experience of these other countries, that we should reflect on the British experience and the Canadian experience, and maybe on the New Zealand experience, and compare the respective compliance costs. Our submission therefore is that there should just be a single rate, and—

Senator MURRAY—It is a difficult field because there are not many experts in it, but are you aware that the leading researchers on compliance costs in this country—the ATAX research unit from the University of New South Wales—are highly regarded? The secretariat can give you their submission if you would like to look at it. They have given evidence that in fact Canada has the lowest compliance costs of a range of countries that they studied, and New Zealand have the highest and the UK has it below. What is more, they have also said that the compliance costs for businesses in those countries under GST are not materially different from those which companies doing WST at present experience. So, the assumption that the compliance costs will be greater I think makes intuitive commonsense because it must with greater definitional problems, but nevertheless the international evidence does not confirm that—such that we have seen, anyway.

Mr Firek—I believe, Senator, that in the instances that you have mentioned there were extenuating circumstances for some of the results that you are talking about. And I believe that in Canada, for instance—although I am not certain—they already had an indirect tax regime very similar to the tax regime that they then introduced. We are arguing on the basis of the overseas experience, on the basis of the documentation that has been provided, in terms of trying to define food, trying to define food as against food service, and we are strongly of the view that the costs will be high. And the other attraction really is in removing things like the wholesale sales tax regime.

CHAIR—Senator Campbell.

Senator GEORGE CAMPBELL—Thanks, Chairman. Mr Firek, I think you said you consulted your membership by survey. Was that in the form of a questionnaire?

Mr Firek—That is correct.

Senator GEORGE CAMPBELL—Did you just send that out with a series of questions on it or did you provide explanatory material? Did you provide the arguments for and against the GST?

Mr Firek—We have been dealing with the question of a GST extensively in each of our magazines for a number of months now. The survey itself, I think, went out without explanations, but we have, since even before the federal election, been trying to keep our members informed on what may or may not be the results of it.

Senator GEORGE CAMPBELL—Did that material provide pro and con arguments?

Mr Firek—We think we provided the facts to members as best we could, but, as I said to you, the survey did not include pro or against arguments.

Senator GEORGE CAMPBELL—But if you put material out prior to the federal election to your members, did you put material out in respect of the Labor Party's tax package, for example?

Mr Firek—We presented a package which dealt with the whole range of Labor Party proposals, Democrat proposals, coalition proposals, and we even had a small package on One Nation—as to what the parties were advocating.

Senator GEORGE CAMPBELL—So you put the full gamut in front of your membership?

Mr Firek—Yes.

Senator GEORGE CAMPBELL—You have made several references to the administration costs, and you have said that one of the attractions of this package for your membership is that it is simple administratively. Have you had any expert advice in terms of how it will be administered in practice, what types of administration your members are going to have to put in place in order to handle the GST?

Mr Firek—As I have said before, we are not a rich association. We do not have the money to commission economic advice and modelling. As we understand the package, if there is a single flat rate, the remittances that are made—and there are fewer remittances than under, say, a wholesale sales tax regime—are simply on the basis of the difference between inputs and outputs, and that is remitted back. Effectively, that is what we are talking about. Our large concern is a situation where half of our high volume products, or a third—or some percentage—are taxed at a separate rate. Whilst we have not commissioned any research on that, we think that would be exceptionally high, especially in our industry. We are low margin, high volume, and if everything you sell you have—

Senator GEORGE CAMPBELL—Sorry, I am not talking about whether it is taxed at a separate rate or not. I am essentially trying to understand why you come to the conclusion that there will be administrative simplicity about the government's proposed tax package.

Mr Firek—Because all items—

Senator GEORGE CAMPBELL—You have come to that assumption out of the documentation that has been provided by the government?

Mr Firek—As I understand the package, all inputs will have a GST component and bakeries will be able to claim a credit back against the GST that they have charged.

Senator GEORGE CAMPBELL—What do you say to the position that was put by Arthur Andersen before this committee yesterday? They are tax experts who deal with indirect taxes, and they said:

A value-added tax system is inherently complex and adds a substantial administrative and compliance burden to many businesses.

This is a company that supports a GST.

Mr Firek—I would be happy to give you my view on that. I would like to see the rest of what they said.

Senator GEORGE CAMPBELL—I am sure their submissions could be available to you; they are public. Will you draw that to the attention of your membership?

Mr Firek—We will, without a doubt, feature a lot of what is happening here today and on other days. We think that the costs are immeasurably high for our members to go down the track of trying to differentiate and not going for a single system.

Senator GEORGE CAMPBELL—But this comment by Arthur Andersen is in respect of the tax package. It is not exempting food, it is with respect to the current proposal that the government has before the parliament which includes food, which is what you are supporting. Yet they are saying it will be inherently complex and there will be substantial compliance costs for business—and they do not differentiate between small or large business.

Mr Firek—As I have said, our understanding is that the compliance costs—I am not sure what the emotive words that were used in the article are—are not going to be that high. We think that they would be higher under any of the other options or proposals on the table at the moment, including the current regime.

Senator GEORGE CAMPBELL—Given that one of the substantive arguments that you have put forward as to why your members support the GST is the simplicity of the administration of it, and given that this is a reputable accounting firm, would it not be incumbent upon you to draw this to the attention of your members?

Mr Firek—I will draw it to the attention of my members.

Senator GEORGE CAMPBELL—In response to a question from Senator Cook, you said you were not concerned about the business impact upon your businesses as a result of the additional tax on your products because of the compensation packages that will be put in place, that in fact the capacity would be there for people to purchase.

Mr Firek—I am always concerned about things that affect members of our association. What I believe I said to Senator Cook was that we believe that the compensation package is sufficient to cover any possible price increases.

Senator GEORGE CAMPBELL—Are you aware of the comments that were made to this committee yesterday by Mr Carmody of Access Economics? What he said was that everyone who says the compensation package will not last is dead right. Mr Carmody, as I understand it, was one of the architects of Fightback back in 1993. Will you draw that to the attention of your membership?

Mr Firek—I am more than happy to draw anything that you will provide me to the attention of my members, but I do not think it will change the view of high volume, small margin businesses. As you have said, there is a discussion about these things. I am neither an economic modeller nor a tax lawyer. I am presenting to you what is the authorised and accepted view of the New South Wales association and the federal association which cover the baking industry.

Senator GEORGE CAMPBELL—I understand that. I understand the position that you have put and that you are representing the interests of your members. But what I am putting to you is that two key pillars upon which you based your argument of support for this tax package have in fact had a huge hole punched in them in the last couple of days by a prominent accounting firm and economic modellers in this country, and I would have thought it would be at least your duty of care to have brought that to the attention of your membership if they are basing their support for this package on the assumption that those two things will not happen.

Mr Firek—I will endeavour as much as I can to bring to my members the full ambit of views presented to this committee. I expect that there have been other proposals put which contradict those.

CHAIR—All I can say is, you amaze me, Mr Firek, in the sense that as an organisation you are asking to be taxed when you are not taxed now. But that is your prerogative, and you put that to us. Thank you very much for the assistance you have given to our inquiry. The inquiry is now adjourned. We will resume at 2.15 on the dot with the Alcohol and Other Drugs Council of Australia.

Proceedings suspended from 12.58 p.m. to 2.14 p.m.

CROSBIE, Mr David William, Chief Executive Officer, Alcohol and other Drugs Council of Australia

CHAIR—Welcome, Mr Crosbie. We have your submission and two documents which have been circulated in your name: one entitled ‘IWA—Wine equalisation tax proposal’ and the other ‘Wine sales figures—southern region’. I presume you would like to table those documents?

Mr Crosbie—Yes.

CHAIR—The procedure is that we invite you to address and summarise the main points of your submission, which is before us and of which we are aware, and then for you to be available for questioning, if you do not mind. Please proceed.

Mr Crosbie—The Alcohol and other Drugs Council of Australia is the peak national non-government organisation. It is an umbrella organisation with 350 members, mostly non-government or community based treatment and prevention agencies. What I hope to do is briefly go through the original submission, talk to the two additional tabled documents and make some suggestions about where we might have changed our position from that original submission, based on developments. Really the whole area of alcohol tax, which is the primary focus of our submission, seems to be one of some contention and changing models. We have amended our position in line with some of that debate.

Let me start by very briefly touching on what we consider to be the key issues. From our perspective, alcohol is a major public concern. This morning I have been at the Prime Minister’s launch of the new Tough on Drugs Strategy for funding for treatment agencies. There is a huge amount of public attention addressed to those kinds of issues but, from our perspective, alcohol is still the major drug of concern. It is the drug that kills the most young people. Every day in Australia, on average 10 people die as a consequence of alcohol misuse. In the under 35-year-old age group, it is the primary drug associated with death, more than heroin and other illicit drugs, which seem to attract a great deal more attention.

There is lots of data about the impact of alcohol in the community and the problems it causes. Those are outlined in our submission, but we need to keep in mind that alcohol—because it is readily available, because young people do tend to start using it early, because in many ways it is a gateway drug to other drug use—is associated with a whole range of problems across the community. I will not go through all those. They are detailed and I am sure senators are familiar with the kind of impact alcohol has at a community level in terms of violence and crime, hospital admissions and everything else. I would simply emphasise that alcohol is a very significant issue in our community, one that perhaps has not attracted the attention that the more sensational drugs have. Certainly from our perspective it is the major drug of concern.

Given alcohol’s role in society and its impact, we feel that it is incumbent upon any government, when looking at pricing of that product—which is effectively what the taxation and excise proposals do—to at least take into account the health consequences. I am not sure to what degree that has been taken into account in the government’s proposal as it currently

sits. In other evidence presented to the Senate, there has been some exaggeration about the degree to which alcohol tax is regressive.

If we look at the study by Alan Moran and if we look at the 1997 *Year Book Australia*, it is regressive to some degree in that as people earn more they spend a lesser percentage of their income on alcohol. But it is a marginal regression which, in the 1997 Australian year book, goes from 2.5 per cent of expenditure to three per cent of total expenditure, from the bottom to the top. So you are not talking about a huge difference in terms of percentage, even though the figures are substantially different. Alcohol is unlike, say, tobacco. When you earn more money, you buy better grog. People are more likely to buy premium bottles of wine if their income is higher. So the impact of regression is relatively minimal compared to some other substances that it is often associated with in terms of regression.

I also think it is important, in these preliminary statements, to emphasise the degree to which we are aware from studies all around the world that pricing directly impacts on consumption. People who would suggest to the contrary are flying in the face of over 53 international studies which have been reviewed by the World Health Organisation and other organisations. In almost every case, for every product, as price goes up, consumption of that product goes down in relation to alcohol. Perhaps more importantly, the people who reduce their alcohol consumption the most are the people who are dependent users. That is, people who are already spending as much as they can afford to spend on alcohol tend to buy less alcohol.

I tabled two additional pieces of paper, one of which is the graph of wine sales in the southern region of the Northern Territory. If I can refer you to that graph, it explains some of our concern about cask wine as a product, but it also explains our concern about the impact of pricing changes, even in communities where patterns of drinking are largely concentrated on binge and dependent drinking, particularly of these kinds of products. What you can see is that a relatively small population of 35,000 people, most of whom of course do not drink cask wine, in the quarter from 1 April to 30 June consumed 351,000 litres of cask wine. What you are talking about there across a year, obviously, is about 1.4 million litres. That is roughly—we tend to talk in thousands of casks sold a week—more than 6,000 four-litre casks being sold each week to that population of less than 35,000.

What concerns us, and the reason that we have argued for these kinds of figures to be taken into account, is what happens when pricing changes, even relatively marginally. As senators would be aware, the decision taken by the High Court to not allow licence fees and franchise fees to be imposed on alcohol and tobacco meant that the Northern Territory, which had an additional levy on cask wine, had to remove that levy, and the net impact was a reduction in price. With that reduction in price, there was a significant increase in cask wine consumption.

People in the field who work in Alice Springs will make very cogent arguments that people are spending to buy as much alcohol as they can afford. Bulk wine is still by far the cheapest form of alcohol available in Australia. As bulk wine became more affordable, people bought more of it. We would expect the contrary to happen, as studies around the world have shown.

I do not want to talk for too long because I want to be able to have an interchange, but I do want to briefly discuss what we like about the current proposals. We think it is a vast improvement on the present system to have a blanket 10 per cent excise on products other than wine. For a long time we have argued about the impact of alcoholic sodas, and others being made with wine bases that avoid excise, and therefore being able to occupy a floor price end of that ready-to-drink market. Having them all taxed according to their alcohol content is clearly preferable from our perspective. It lifts the floor price in the ready-to-drink market, which is largely targeted at young women.

We do have concerns that the level of excise tax exemption in that category below 10 per cent is not significant enough. The proposal is to move it from the current excise exemption rate of 1.15 to 1.4. We do not believe that 1.4 per cent quite translates into the current price differential between low-alcohol beer and full-strength beer and for us this is a significant concern again.

We know from what happened when states and territories started to differentiate their licence fees on beer—so that low-alcohol beer paid, in some cases, no excise, compared to full-strength beer paying 11 per cent, for instance in Victoria—that that was one of the key catalysts for the production of quality low-alcohol beers. I think the production of quality low-alcohol beers and their overt marketing—because profit margins are there at a lower price—has contributed to saving hundreds of lives on Australian roads. People now drink low-alcohol beer. In the Northern Territory alone, where anyone drinking low-alcohol beer was considered to be perhaps less than a true Territorian, the rate of low-alcohol beer consumption has gone from under five per cent to over 25 per cent.

That is a huge shift and it is partly due to marketing. It is partly due to the improvement of product, but there is no doubt it is also partly due to the fact that differential pricing provides an incentive to producers to produce quality low-alcohol products and incentives to consumers to buy low-alcohol products. That increase in the low-alcohol beer market over the last 10 years has been nothing short of remarkable. It occupies over 20 per cent of the beer market in Australia.

For us, that translates into lives being saved. People can drink low-alcohol beer and stay below .05 and stay in control in situations where otherwise they might not be in control. They can join in shouts, participate in social activities and be one of the boys. In many sporting clubs we even have arranged that low-alcohol beer is put on tap and anyone wanting full-strength beer has to ask for it. We have measured changes in the behaviour associated with those kinds of sporting clubs.

So for us, low-alcohol beer is a real positive and we want to see the differential at least maintained. We would argue that that price incentive of 1.4 per cent threshold needs to be increased to about two per cent. That would provide a greater price differential between low-alcohol products and full-strength products and, from our perspective, at least maintain the current price differentials.

I want to end these opening remarks by briefly saying that we have changed our position from the original submission in that we, perhaps foolishly, believed we could oppose the WET tax. Of course, it would be naive at the moment to suggest that cabinet will meet and

decide that, on the basis of our submission and health interests, the WET tax will be abolished. We also were looking at having a blanket excise rate that incorporated all alcohol products. Clearly, this is unlikely to occur either. It is flying in the face of the kinds of parameters that have been set for taxation reform.

We are prepared to accept, I suppose, the proposal put forward by the Independent Wineries Association where the WET tax is maintained but is shifted to a volumetric basis to provide incentive for producing low-alcohol casks. From our perspective, cask wine need not increase in price if its alcohol content is reduced. I am not convinced that it is not possible to reduce the alcohol content of cask wine without affecting its taste to the point where aesthetic qualities would diminish significantly. Other than the need for the excise duty tax threshold to be increased to two per cent, we basically support the push from the Independent Wineries Association and the kind of taxation model that it is proposing.

Senator GIBSON—I am pleased to see in the front of your submission that you welcome the government's tax reform proposals and the reform of the taxation system in general terms, particularly for alcohol, as it was long overdue, and also your acknowledgment that what the government has proposed is a substantial improvement over what is currently in place.

Mr Crosbie—I do not think anyone looking at the alcohol tax system from an economic perspective, and certainly from a health perspective, would argue that there is any rationality to the current system and that the proposals that have been put forward do represent an improvement. From that perspective, we are supportive of those proposals. We would like to see them improved to the point where health is taken into account to a greater degree, particularly in the areas that we are addressing—the production of cheap, relatively high alcohol products.

Senator GIBSON—I welcome your comments about the low- alcohol products being encouraged.

Mr Crosbie—Anyone looking at the evidence would say that perhaps the most significant public health campaign that has ever been run in this country in terms of saving lives—and it is now saving literally thousands of lives—has been random breath testing and its associated strategies of high-volume testing, advertising and compulsory consequences. There is no doubt that part of the success of that has come about because of the production of high quality, affordable, low- alcohol products.

Senator MURRAY—Mr Crosbie, I think it was in the 17th century that excise changes in Great Britain turned England from a gin swilling country, equivalent to Brueghel's famous painting of how things were in the Netherlands at that time, to a consumer of beer with the consequent increases in productivity, health and general social conditions. I welcome and in fact draw the attention of the committee to what I know to be true from my reading and that relates to your point in your executive summary—page 2 of your submission—where you say:

Consumption of alcohol is price sensitive. Of 53 studies spanning 17 countries and 120 years of price and consumption data, only three have failed to find a negative relationship (increased price/reduced consumption) for ALL of the beverage varieties studied.

You have, on the basis of that, made a very considered plea for not only the continuation of price differentiation between low- and high-alcohol products but for that to be rationally extended across all alcohol products because primarily it is only applicable to beer. It does not even apply properly to pre-mixed drinks.

We have been presented with evidence which I do not want to unkindly picture but it has been a little incoherent in terms of its principled expression. I want to state to you my understanding of what is being asked for by a majority of the alcohol industry, by number and value as I understand it, and by the health industry represented by people such as you. You want a standard rate of excise on alcohol by volume and then the social health component added to differentiate between low, medium and high priced alcohol products. That is it in a nutshell?

Mr Crosbie—Yes.

Senator MURRAY—The question which faces both the committee and the government is not whether that is politically possible to implement—because the Senate might be able to muscle the government in the direction it is not presently going—but what percentage difference and what price difference actually makes the impact you are searching for. You used the figure of two per cent earlier, I think.

Mr Crosbie—Yes.

Senator MURRAY—Given these studies, are you able to advise the committee what percentage difference there should be between low-, medium- and high-alcohol wine, between low-, medium- and high-alcohol beer, between low-, medium- and high-alcohol cider and other beverages, and between full-strength and pre-mixed spirits?

Mr Crosbie—The short answer is no. The longer answer is that I am sure that some of this information can be collected and provided. As far as we are concerned the greater the differential the more likely it is that people will make decisions to choose low-alcohol products. The problem, for instance, in the beer category is that once you get above two per cent alcohol-free or excise-free threshold, then you are starting to have products produced paying no excise that are two per cent alcohol. Those products in themselves are not likely to lead to intoxication by adults—and certainly not by adult males—but products above that we would start to have concerns about, if they were provided with a tax-free break. Once you get to the 2.5 per cent, you are starting to talk about beers that can lead to intoxication particularly with people who drink infrequently, and I am not sure that we want to give them an excise-free status.

In terms of the modelling and its impact, I think it is a very good question. We, as an organisation, do not have the resources to do the kind of economic modelling that you are suggesting needs to be done. I would happily take it on notice and seek to discuss with others who may have the resources whether or not that information can be provided.

Senator MURRAY—Given that we are unlikely to have either the time or the opportunity to do this, I understood you to be saying that the present differentiations, in beer at least, have resulted in very considerable consumer behaviour change and price substitution. What you are saying is that, even if we do not have enough evidence from international sources or from your own or other studies, at least we should maintain the percentage difference which already applies in beer in dealing with wine and in dealing with full-strength and pre-mixed spirits?

Mr Crosbie—Yes. Sometimes, as you would know, we can talk about the impact of price differentiation but trying to separate it out as a factor in, say, the Northern Territory's now relatively high consumption of low-alcohol beer to what it was before, is difficult. There was price differentiation introduced, there were also advertising campaigns and marketing campaigns, and there were also new products which were much more drinkable for beer drinkers. The low-alcohol beers before Tooheys Blue were, I found, undrinkable and the products that are now available are much more palatable and enjoy a higher status as a drink on their own for aesthetic reasons, I suppose.

I am happy to go back and see what we can do in terms of trying to provide that information to you. Some of it is, as you suggest, available in international literature; some is available based on extrapolations from Australian data. I do not know how robust it is but I am happy to try to collect that together for you.

Senator MURRAY—Amongst the communities with the greatest incidence of abuse and, conversely, incidentally the greatest incidence of abstinence as well, are regional Aboriginal communities. We had a submission today from ATSIC which concentrated on rural and remote regional communities. In that submission they had done a survey of household expenditure—75 households comprising 487 residents from particular communities, so quite a good snapshot if you like. Expenditure identified as on alcohol and tobacco was nearly 20 per cent of total expenditure. The first question is: in your view does that look to be about in the right ballpark?

Mr Crosbie—The difficulty we have here—as you would be aware—is that in some communities the expenditure will be dramatically higher than that and in others dramatically lower than that because of the number of communities that are dry and, as you point out, because even in a number of wet communities there are people who do not drink at all and then there are people who drink heavily. So I would question whether that kind of averaging tells us a great deal in some ways, given that you are often talking about two extremes of alcohol consumption patterns.

CHAIR—Senator Murray, are you able to bring your questions to a conclusion?

Senator MURRAY—Yes. My apologies, Mr Chairman. As you know, I have an interest in this area.

CHAIR—I do.

Senator MURRAY—I will make this my last question. Is it correct that if that nearly 20 per cent was reasonably accurate and if that nearly 20 per cent was dedicated to the

consumption of high-alcohol products, then the likelihood of abuse is greater than if the same amount was spent, but with perhaps a quarter or a third of it on low-alcohol products, and therefore for us to respond to your recommendations would not necessarily affect the recreational desires of this community to consume alcohol but would just produce better use?

Mr Crosbie—I agree with you. At the moment the floor price for alcohol is cask wine, in terms of commercially available alcohol. If I want to get drunk, if I want the most alcohol, or the biggest bang for my buck, I drink cask wine because I get a very significant amount of alcohol for a very small price. If the alcohol content in cask wine was reduced, and full-strength cask wine, for want of a better term, was increased in price, it is still going to be the floor price for alcohol, it is still going to be the biggest bang for your buck to buy cask wine because it enjoys such huge advantages, given its alcohol content. So I think you are right in suggesting that people will probably still spend that kind of money on alcohol but will not be buying as much alcohol even though they may buy as much drink—if that make sense.

Senator HARRADINE—Thank you for the evidence you have given to us, Mr Crosbie. In respect of low-alcohol beer, what would be the precise amendment you would see as being necessary, given what you have put to us in rather cogent terms?

Mr Crosbie—We believe—and, as I said, I would like to be able to get this economically modelled—from talking with beer producers and others that to maintain the current price differential between low-alcohol and full-strength beer the excise-free threshold of 1.4 per cent would need to be raised to two per cent. I am happy to provide a model of the actual costings at a later date. It was only brought to our attention by one of the beer producers—in fact, one that produces a lot of mid- and low-strength alcohol—that this was a concern. I have asked them to provide me with the data on which they have based their modelling. We want to check that, and then I am happy to present that and to make it available to people. But, certainly, my understanding is that two per cent would maintain the current price differential.

Senator HARRADINE—Have you raised these issues with the Minister for Health and Aged Care, Dr Wooldridge?

Mr Crosbie—This is an interesting issue for me, in a sense, because I am also a member of the National Alcohol Strategy Committee, which reports to the health minister. I do not think alcohol tax has been a significant issue within the health portfolio. In fact, even when we were originally discussing alcohol tax within that committee—and, as a range of alcohol experts sitting around, we thought pricing was a pretty significant issue—we were basically informed that pricing was not in the ambit area that the minister would like us to be looking at.

Senator MURRAY—That is shocking.

Mr Crosbie—Under the new structures which have been brought in under the Australian National Council on Drugs, where we have been renamed a national expert advisory committee on alcohol, taxation is now on our agenda, but until recently, that was not the case.

Senator HARRADINE—Isn't the federal health minister aware of the price sensitivity?

Mr Crosbie—I am not sure what the federal health minister thinks on these issues. Basically, it has not been an issue that we have been encouraged to pursue even as a National Alcohol Strategy Committee. We were originally told that our primary task was to look at a number of areas—preparing a national campaign; looking at advertising—and that alcohol tax was not an issue. I suppose one of the reasons why it was considered difficult for that group to address it was that we have the alcohol beverage industry and the alcohol retail industry represented on that committee and they may well have strongly objected to the minister that this should even be discussed.

Senator WATSON—Told by whom?

Mr Crosbie—We were established as a subcommittee reporting to the minister. We were given our terms of reference by the minister and that was not in our terms of reference. When we suggested it might be, we were informed at our next meeting that it might not be.

CHAIR—Thank you, Mr Crosbie. With regard to the question that Senator Harradine asked you, I am sure there is an avid interest, more widely than just by Senator Harradine, in the committee receiving your views on that matter. I draw to your attention, for the sake of convenience, that in drafting our report, which has to be tabled by 19 April, if there are matters that you can answer with regard to Senator Harradine's question, it would be useful to me, as the chairman, to have them before me by 10 April.

Mr Crosbie—Certainly.

CHAIR—Thank you very much for the assistance you have provided us today.

Mr Crosbie—Thank you for the opportunity.

[2.48 p.m.]

AYRES-WEARNE, Ms Valerie Elizabeth, Social Policy-Research Worker, Good Shepherd Youth and Family Service

McCARTIN, Mr Damien Laurence, Social Policy and Planning Worker, Good Shepherd Youth and Family Service

CADDY, Father Joseph John, Associate Director, Community Development, Catholic Social Services (Melbourne)

DUNCAN, Reverend Dr Bruce Frederick, Research Officer, Catholic Social Services (Melbourne)

SIEMON, Mr Donald McIver, Acting Director, Social Action and Research, Brotherhood of St Laurence

CHAIR—Welcome. I have a long list of people appearing on behalf of various organisations. You have the misfortune of being the last witnesses we are hearing from today. Some senators, I think, are keen to catch their planes on time, so I will not delay. We will invite you to make a short opening statement. Please bear in mind that we have got your documents in front of us. It is always my intention to try to leave as much time as possible for questions from the committee. From a self-regulation point of view, proceed to present your argument to us in the way in which you think is most effective for you.

Mr Siemon—I would like to make a few quick comments which are, I suppose, ancillary to the submission, given that your proceedings are now towards the business end of the season, as it were.

The Brotherhood of St Laurence, as you probably know, is a multiservice organisation based in Melbourne. It has a turnover of about \$30 million and offers a diverse range of services. We have previously given testimony to the Senate Community Affairs References Committee, principally on the impact of the package on our own operations and those of other organisations, so I presume that we are not going to cover that territory today. I would like to focus instead on the main part of our submission, which is really about the economic and distributional impacts of the package.

The Brotherhood, as you probably know, has been one of the bits of the welfare sector that has had an interest in taxation and budget issues for a number of years. The main reasons that we take the equity and economic efficiency aspects of taxation seriously are because of the potential direct impacts on living standards of lower income households, the overall equity of the system, the extent to which it contributes towards employment growth or economic growth more widely and, of course, the extent to which it really provides an adequate revenue base for Australia.

We would not claim to be experts in taxation in our own right, but we would claim to have followed and, on occasions, participated in the debate reasonably closely. What we

have offered you, therefore, is, I guess, our position, which is a position of judgment rather than, by and large, original research.

As part of our involvement with the tax debate, we have been an industry partner with the Committee for the Economic Development of Australia, CEDA, and the Melbourne Institute, in a project which is now coming to the end of its two-year period on the equity and economic effects of indirect tax reform.

There are three main things that I highlight that are relevant to events after the submission. I think the first one is to do with fairness. I believe the idea which was promoted originally that everyone was going to be a winner in this tax reform package has now been shown to be illusory. Low income households, by and large, are unlikely to gain much at all, whereas better-off households are likely to gain significantly.

More importantly, I think the issue for this committee is not whether or not there are some losers, or how many losers there are in an absolute sense; the issue for this committee should be the overall fairness of the tax system and the contribution of this package to that.

The second main point is what I guess is, for many people, the gut decision which this committee is going to have to make a recommendation on—that is, the issue of whether it is better to improve the equity of the package by an extension of compensation or by making food GST free.

For a range of reasons, which I am happy to go into but I think you have probably heard many other people speak about, our own conclusion is that the best way of addressing the flaws in this package is through making food GST free rather than extending compensation. I think it is now clear—and it should be very clear from the evidence of other witnesses you have had before you—that there is no economic basis for not taxing food. In other words, whatever economic efficiency gains flow from this sort of tax reform are likely to be there whether or not you tax food.

Finally, I express our real concern that changes flowing from the business tax review may further threaten the overall fairness of the Australian tax system because of their impact on personal income tax. The two major things I am talking about there are the prospect of further concessional treatment of capital gains and the idea of a lower corporate tax rate.

I urge the Senate to send a fairly clear message to the government that it takes the need for improving equity in the tax system very seriously, because if that message is not sent, then our concern would be that the further changes flowing from the Ralph committee and other legislation which has still to come before parliament could mean that the regression in this package could be amplified by those additional tax changes. Thank you.

CHAIR—Are you speaking on behalf of the entire group?

Mr Siemon—No, that was on behalf of the Brotherhood.

Senator WATSON—But the Ralph proposals are only options at this stage. They are not government policy, as I understand.

Mr Siemon—They are only options at this stage. But the 30 per cent corporate tax rate does seem to be taken fairly seriously as an objective.

Senator WATSON—It is one of the options.

Senator CONROY—Treasury is the champion there. There are guys out there saying, ‘Let’s do it.’

CHAIR—Order!

Mr Siemon—I take the point that they are only options and that is the reason that, if we were to say that equity does not matter too much in terms of this package, then I think it would be a pity because it will send a message to the government that nobody is really going to take too much notice of equity. I think it is very important that parliament, as a whole, stresses the importance of equity in making decisions on this legislation and that will reinforce the case for equity in consideration of future factors in parts of the package.

Father Caddy—Thank you, Senator Cook and senators, for the opportunity to present to you some of our concerns regarding Australia’s proposed new tax system. I think it is very encouraging that the select committee has undertaken this review in the spirit of a genuine inquiry. In our written submission, we remarked that it is just that sort of spirit that would have provided a better context for working through the tax reform agenda than did the pressures of the federal election.

Melbourne Catholic Social Services is the office that represents the response of the Catholic Church in Melbourne to problems of social need and disadvantage. It is an office of the archdiocese and also the peak body for approximately 75 independent Catholic social service agencies. One of our member agencies is Good Shepherd Youth and Family Service who are also represented here today. Generally, the agencies work right across the broad social welfare spectrum in family support, aged care, financial counselling, housing, drugs and alcohol, and prison chaplaincy, to name just a few.

In working with and for those who are poor and disadvantaged, we wish to promote social structures that both lift unfair burdens from them and also bring about greater opportunities for their social participation. That is really what underlies our interest in this current issue of taxation. It is crucial and we acknowledge that the groups that we work with typically rely more than most groups do on the social wage and the income support system.

We are also aware that income support and a social wage are very important components of social cohesion. Over recent years they have been, and continue to be, under a degree of threat through budgetary constraints. We realise that adequacy of taxation revenue is essential to maintaining these vital components of our society. For that reason, we applaud the government’s attempt to ensure a solid broad base for ongoing taxation revenue.

We also respectfully submit that the proposed new tax system could be much fairer if it were more progressive in its structure and taxed people more in accordance with their capacity to pay. In that regard, we welcome the decision by the Senate select committee to

commission further modelling on the distributional effects of the tax reform package by Professors Ann Harding and Neil Warren.

In our written submission, we made several recommendations that we hope the select committee will consider, as we believe that they would promote a substantial improvement in the overall fairness of the package, especially in regard to those who are least well-off in our community. Chief amongst the recommendations were those regarding GST and food and some others about the treatment of the activities of non-profit welfare agencies.

On the question of food, we favour it being GST free because low income individuals spend a much higher proportion of their income on food than do higher income individuals. Granting food GST-free status would also effectively quarantine that area from any later increases in any GST rates. Basically, that issue comes down to a political question about trust in governments and trust in future governments, especially in the light of New Zealand's experience when the government quickly raised the rate of GST after the introduction of their new tax system. I think for us the same question of trust really surrounds those issues of compensation measures proposed in the new tax system.

The other major issue that is in our submission relates to the treatment of so-called commercial activities of charitable institutions. Any funds raised by charities are not distributed dividends to shareholders. They do not go in very high executive salaries—I can assure you of that. They all go back into programs and benefits that accrue to the least advantaged members of our community. To charge a GST on those activities and funds really is to take bread from the mouths of the hungry. Any increased costs for agencies can only mean decreased levels of their services to the poor.

Mr McCartin—The Good Shepherd Youth and Family Service has a long history of providing a range of services to some of the most marginalised people in our community and, in particular, to families and individuals who are trying to survive on low incomes. We also have a social policy and research unit which monitors the social conditions of people in poverty, evaluates policy developments and advocates change in the interests of disadvantaged Australians. It is through this experience that we are well placed to observe the trends and impacts of government policy on those who are most likely to bear the negative brunt of changes in the tax system.

I would just draw your attention to three of our key concerns with the tax proposals. The government's proposed tax package is regressive. Any change in the tax mix that places greater emphasis on consumption and less on income obviously will have an overall regressive impact. In studying actual budgets of families on low incomes who seek assistance from Good Shepherd's financial counsellors, we found that they spent an average of 43 per cent of their budget on just four essential items: gas, electricity, food and clothing. Those items indicate a rise of between 3.9 per cent and 6.8 per cent once the GST is introduced.

The proposed tax package offers income tax reductions that will favour those on higher incomes in both absolute and proportional terms. Good Shepherd found that in 15 of the 21 family cameos provided by the government those families on \$75,000 were proportionately better off than those on \$25,000 per annum, and the overall proportional benefit to those on

the higher income was 1.6 times that of those on \$25,000. We believe that these figures speak for themselves, as they include the impact of the removal of other indirect taxes which are currently imposed. They also include the proposed increases in social security payments. They represent a change in financial circumstances of Australians which is fundamentally unfair and clearly biased against those who are struggling most in economic terms to live and survive in Australia now.

We are concerned about the decline in expenditure on public business services, which has been a feature of recent decades and which is becoming more and more apparent to ordinary Australians in recent years. Obviously, there are only two directions the federal government can go in in the future. It can either increase public expenditure or allow the infrastructure of public business services, so vital to the support of many Australians, the community and social capital, to continue to decline. If, as is proposed, all GST is going to be given to the states, then our concern is how the government intends to fund future needs in a community of growing social infrastructure and social security expenditures. It would seem to us that the only avenue left to fund these will be through increases in direct taxes. If this occurs, will we be left with a situation where incomes taxes return to approximately where they are at the moment, with a 10 per cent GST on top of that?

CHAIR—Thank you. That completes all of your submissions. We will turn to questions from the committee.

Senator GIBSON—I will start with Mr Siemon. Congratulations to your organisation. I know you have had a long-term interest in taxation and economic welfare. I congratulate your organisation on the work you have been doing with CEDA and the Melbourne Institute. That has been well worthwhile. I note on page 18 of your submission that you are sympathetic to changes in the tax system that will improve its fundraising capacities, its fairness and its contributions to sustain employment growth.

I think we all want a tax system whereby the revenue of government is sustained so that it can deal with the things that need to be done. I know that you have made a lot of different recommendations and comments through your document. Can I just bring to your attention that we in the parliament and in the government have got to balance the need to look after those who are disadvantaged and to encourage those who want to grow the economy and hopefully make the cake larger so that the slice which goes to those who are less advantaged also grows.

There has been a lot of evidence that in fact the current income tax scales are a real disincentive for people even on low and medium incomes to do extra work, to work overtime and weekends. I am not too sure whether you are aware that average weekly earnings in Australia are around the \$38,000 mark. That is the barrier. Once your income goes through that you are then facing your 43c marginal tax rate, plus 1½, so that for every additional dollar earned you are losing nearly half of it in tax. There is a lot of evidence that people just will not do it—they would sooner go fishing or go to the football or stay home or do other things. I want to make the point that we have got to balance those issues against the very real issues you have raised, and a balance has to be struck.

Mr Siemon—Just to make a couple of comments on that, the Brotherhood actually takes quite seriously the reality that in an economy which is growing strongly it is easier to divide the cake. There is no doubt about that. Irrespective of the moral imperatives, it is quite clear that in an economy which is doing well it is easier to find the redistributable funds for poverty alleviation. It does not always mean that we have done it in the past, but there is a degree of political truth in that.

We also take it seriously that you really need to ensure that proposals for the social good are not put up in ways which are going to impede employment growth or economic growth. There are lots of propositions for reform in the taxation system which are put up by various people for various reasons which actually seek to address those. Our experience is that, far from equity and economic efficiency objectives always being in conflict, on quite a lot of occasions the two can be seen to be running in parallel.

In terms of the particular example that you gave, which is the issue of the income tax system and work force participation disincentives, our reading of the literature is generally that it does not seem to be a major problem in terms of the higher end of the income scale. The real problems in labour force participation flow from the issues which the government has rightly sought to address in this package which are not really to do with the income tax system; they are to do with the social security system and they are to do with the very high rates of withdrawal of social security payments. Both the government and the opposition, to their credit, went to the election with proposals which were designed to address that problem and I think that was almost a turning point in Australia's history of social policy that they were both taken quite seriously.

We have certainly welcomed those changes to additional family payment under the family tax system which will reduce the withdrawal rate. It is a big step forward. But I would emphasise that that is not terribly much to do with the income tax system unless you are using the term in an analytical or general sense of the tax transfer system. It is actually to do with the social security system, by and large.

While there are some very good bits of the package, there are a couple of odd things in the package in that regard. The first one is that the package actually reduces the withdrawal rate for age pensions down from 50 cents to 40 cents in the dollar where there is no particular reason in terms of work force participation why that is a priority. The group where it is a priority is really the group facing the 70 cents in the dollar withdrawal, which is single, unemployed people. I guess from our point of view that would be a higher priority than reducing the age pension withdrawal rate.

I think you are absolutely right to signal that that is an issue which needs attention. I think we need to be more thoroughgoing in the way in which we do it. I think there are those who have argued that in fact an increase in the consumption tax burden, which this package produces, will actually have unfortunate labour force participation problems, particularly for secondary earners—for women, principally, with children. I do not think it is an enormous problem in terms of the size of the tax mix change which is here. But the more you load up the consumption tax side of the equation, the more you start hitting families with children and the more you start actually making it harder for mothers to work.

Julie Smith from the ANU has done some stuff on that which I suspect she may well have provided to the committee. I absolutely take your point, but I do not think this package as it stands is probably as good at addressing the issues which you have raised as it could have been.

Senator GIBSON—Father Caddy, you raised the matter of preference for excluding food. The committee had a paper given to it by Professor Neil Warren from the University of New South Wales in December last pointing out that taking food out of the GST net removes about \$5 billion of revenue from the roughly \$30 billion that would otherwise be in the total in year 2 or 3 with GST, and that by excluding food you are giving—if your concern about excluding food is really the poorer quintile, the poorer 20 per cent of the income distribution—a free kick, basically, of \$4 billion to the more affluent end in order to look after, if you like, a three-quarters of a billion dollars problem on the poorer end. Are you aware of that sort of argument?

Father Caddy—Yes, I am aware of it. I might hand over to Dr Bruce Duncan who has done quite a bit of work in that area.

Rev. Duncan—I am glad you raised that point because it also comes up in the government report on pages 13 and 15.

Senator GIBSON—Which report?

Rev. Duncan—The government senators' report on the Senate tax inquiry. I think there is an error by the government in this. The implication is that exempting food would benefit the rich, and the examples that have been used by the Treasurer and Mr Howard have been that the top 20 per cent of income earners would benefit unduly. But what they forget to take into account is that the top 20 per cent of income earner households contain twice as many people as the bottom 20 per cent, so when you take that into account and when you exempt what is paid for restaurants, there is only a 10 per cent difference between higher income individuals and lower income individuals in per capita spending on food. When you add in that as a proportion of their income lower income individuals spend twice as much on food as upper income individuals, you come out with a figure that lower income individuals are actually spending four times as much, in comparative terms, as upper income individuals. So a GST weighs extremely heavily on them with food where it is a much lesser amount on upper income groups.

I pointed this out in a letter to the *Financial Review* last year, and Tim Colebatch has also pointed out this confusion between individual and household figures. I think the point stands that exempting food would not be a bonus to the rich.

Senator GIBSON—The Neil Warren argument is that of the \$5 billion that would be collected from a GST on food, if we are really concerned about the poorer 20 per cent of the income distribution, that is a problem that is less than \$1 billion in dimension. Therefore we would be giving up \$4 billion of tax revenue which the government could well use for purposes such as helping with welfare.

Rev. Duncan—It would seem to me more equitable if rather than taxing food the taxation benefits to upper income groups were reduced—instead of over 50 per cent of the taxation cuts going to the top 20 per cent, you would have a fairer distribution of the tax cuts. It would mean a major adjustment to the whole tax package.

Senator GIBSON—I hear what you say. Yesterday we had evidence from the Business Coalition for Tax Reform which, as you know, is a mixture of business and welfare groups. They gave us a table yesterday, on page 19 of their submission, which gives the distribution of personal income tax by quintiles, by 20 per cent lumps. That shows that in the bottom 20 per cent the percentage change in the total income tax share is actually going to go down by 0.3 per cent. The only quintile in which it is going to go up is in the top 20 per cent by 0.8 per cent. The total tax take as a proportion in each quintile is going down basically in each quintile and going up in the top quintile. That is just part of the argument, as I said to Father Caddy before. We have got to balance making the cake grow as well as looking after people that are disadvantaged.

Rev. Duncan—I have not seen those figures.

Senator GIBSON—I think in the other submission on page 4 from the Good Shepherd Youth and Family Service, Mr McCartin, you say that the wholesale sales tax could easily be adjusted to bring in more government revenue. We have had evidence given to us that in fact indirect taxes as a proportion of Commonwealth taxes are definitely on the way down. It was quite a substantial paper which Access Economics brought to our attention yesterday and which was submitted to our committee about a month ago. All the main indirect taxes are in fact heading down and if indirect taxes, certainly by the Commonwealth, were to stay at a constant level then the tax rates would have to go up. I would remind you that in 1993 the Labor government put up the rates without any warning or without any compensation to those affected—is that what you want?

Mr McCartin—I was arguing that by using the wholesale sales tax system more intelligently you could actually adjust the social priorities rather than have a blanket 10 per cent across all goods and services, and particularly across essential goods and services. You could actually use it to place higher taxes on more, shall we say, luxury type goods and services rather than on the more essential ones. That was the point of that argument without talking about changing the tax mix as such.

Senator CONROY—I want to address the question of the revenue base which Senator Gibson has just brought up. I do invite people to have a look at Mr Carmody's paper because, despite the way it was represented to you, it is in actual fact a very good argument for not doing what the government is proposing. What it shows on Mr Carmody's projections is that the loss in revenue for the next 10 years for WST is a grand total of \$100 million. That is \$1 billion over 10 years, \$100 million which equates to a 0.018 per cent decline compared to GDP. They are Mr Carmody's figures and he is a supporter of Fightback. Without even wanting to contest his figures—

Senator GIBSON—Those numbers are deceiving.

Senator CONROY—They are stated here in black and white.

Senator GIBSON—The total figure in the bottom is \$5.3 billion.

Senator CONROY—I said WST. I did not—

CHAIR—Order! Senator Conroy has the call.

Senator CONROY—Okay. I am talking about WST because the big argument which has been sold particularly to the welfare community is that the revenue base is in trouble and this WST thing is just creaky, a 1930s thing which is falling apart. The indirect tax base is falling apart and, in particular, Mr Carmody, who strongly advocates the GST has figures to show that, firstly, the WST is not in some sort of massive decline. And when you compare it to the sorts of taxes that it is replacing—this is the ANTS document, pages 21 and 22—the argument is that we have got to get rid of those terrible regressive and complicated state taxes. How many people at Good Shepherd that you help each week would be hit by stamp duty on marketable securities?

Mr McCartin—None.

Senator CONROY—How many people that you would help in a week would be getting hit by conveyancing duties on business property?

Mr McCartin—Obviously our clients do not fall into those categories.

Senator CONROY—Stamp duties on credit arrangements, instalment purchases, rental hiring agreements?

Mr McCartin—Possibly.

Senator CONROY—Stamp duty on leases?

Mr McCartin—Not very likely.

Senator CONROY—Unlikely. Stamp duties on mortgages, bonds, debentures and other loan securities?

Mr McCartin—Highly unlikely.

Senator CONROY—Cheques, bills of exchange, promissory notes? These are the taxes that are being taken away. These are those evil, regressive taxes that we keep hearing about, and what we are being asked to do is tax people on food as a replacement for them—food, rent, gas, electricity. Then the argument is put that that total indirect tax base is falling, which is, as Senator Gibson has been trying to interject over there, suggesting that there is a decline. When you examine the figures in here, almost all of the decline that has taken place over the last few years, which are the figures that everyone quotes from the past—these are projections, so now I am talking about the figures in the past—you see that an overwhelming percentage of the reason for any decline in the indirect tax base is the deliberate government decision to do with tariffs. So as the tariff comes down, the money coming in from the tariffs is over \$4½ billion worth of deliberate government decision to reduce tariffs.

So the argument that it is falling apart, which has been a very strong argument and a reason that many organisations like yourselves have been prepared to be involved in the debate, when you get down to the nitty-gritty of what has actually been going on rather than the rhetoric that the Treasurer and others have been putting out, you begin to see that the revenue base is not as insecure as you are being told. This committee has commissioned a study by Professor Dixon that actually shows the WST and the indirect tax base is not in decline and that the WST, in particular, is growing at the same level as GDP, which is the definition of a growth tax—maintaining its position. And the government will argue that that is because of the increased rates, as Senator Gibson just did. So on the one hand it is okay to criticise the increase in the rates as a terrible thing, but if it is falling because of a deliberate government decision on tariffs it is a bad thing. It is an inconsistent position.

On the revenue base question, what I would put to you is that Treasury have not produced any figures to substantiate the government's claim because they know it is not an accurate statement. I was just wondering if anybody has actually shown you any figures that the revenue base is collapsing in the way that the rhetoric is suggesting.

Mr Siemon—Can I comment on that?

Senator CONROY—Please.

Mr Siemon—There is an enormous amount of hyperbole used to justify certain positions in tax debates. There is no doubt about that. I think your analysis of the reasons there has been a secular decline in Commonwealth indirect tax as a proportion of GDP is largely correct. It is also true that there have been, over the last decade, some increases in wholesale sales tax rates in order to keep up the revenue from wholesale sales tax. So both bits of the picture are absolutely true.

It is also true that the states, while complaining about lack of revenue, have themselves either through conscious policy or through tax competition chosen to underutilise tax bases. They have in payroll tax a very substantial tax base if they want to use it. Tax competition has led to the erosion of duties on shares, for example, as it did with death duties in the past. Some efforts on a state-by-state basis to innovate new tax bases have fallen flat on their face because of the worries of interstate competition.

So there is a lot of hyperbole, I am absolutely sure, and I agree with you. I think it is wrong to portray the welfare sector's concern about tax reform as primarily a concern about a decline in the indirect tax base. Our concern about tax reform has principally been on the income tax side. If you look at any of the major statements on behalf of ACOSS, you will find that indirect tax reform is an additional item there after discussions about income tax reform. The government's package does promise some action on the income tax side, which is welcome, although in the case of the trusts I have not seen any more detail since the package.

So I agree with many of the things you have said. The one caveat I would have is that there is a case for indirect tax tidying up, as it were, which stands on its own—I suppose there are two cases really. One is that some of those state taxes you are referring to are levied at relatively high rates on relatively narrow bases, and there are some problems with

them. We discussed some of these. Some of those business taxes, taxes which are like a consumption tax but are levied on businesses, sometimes have effects in an environment where you can have competition between states in that they become limited and eroded away. So there could be some benefits, from our point of view, of replacing some of those state taxes, which are a bit ad hoc, with a broader based tax. In fact, most of the economic efficiency benefits as I understand them from the economic modelling of indirect tax reform as undertaken by people like the Melbourne Institute are actually more to do with the replacement of those small, fairly high rates of state taxes with a GST than they are anything to do with the replacement of wholesale sales tax with a GST.

I do not want to overstate the case for indirect tax reform. Under most modelling there are some economic benefits. It seems to be better to do it than not to do it. I suspect most of the benefits flow from tidying up the state taxes. There are some pluses and minuses which we have signalled in our submission that we see flowing from the changes in the federal-state relationships, but at the end of the day you are absolutely correct to say that there is much more to tax reform in this country than a GST and income tax cuts. In fact, that should not be the centrepiece of tax reform. The centrepiece of tax reform should be major renovation of the income tax system.

CHAIR—Does anyone else want to comment?

Father Caddy—I would certainly agree with Don. I would also say that certainly from our point of view we do not see any substantial reason that goods should have preferential treatment over services. What we do see is that in the new tax system that is proposed there is substantial change in the tax mix away from those direct income taxes towards the indirect taxes which tend to weigh much more heavily on low income people and people with families who spend most of their income—more than their income, in fact—on just week-to-week living expenses.

Senator CONROY—I have got a thousand questions I would like to ask in response to Mr Siemon but, unfortunately, I have a limited opportunity here. If I get time, I might like to come back to some of them. Anglicare appeared before us a week or two ago and argued many similar things to you. Bishop Andrew Curnow said that there were two things that Anglicare wanted that were non-negotiable—food and rent. Do you share the view that both need to be GST free?

Mr Siemon—The crucial one in terms of the modelling that comes out of the Melbourne Institute is probably food.

CHAIR—Aren't the others necessities of life as well?

Senator GIBSON—Residential rent is not in.

Senator WATSON—It has never been in.

CHAIR—What about electricity and clothing?

Senator MURRAY—Mr Chairman, I am losing a grip on who is saying what.

CHAIR—I am intervening.

Senator CONROY—It is graceful interjecting from Senators Gibson and Watson down the end.

CHAIR—Order! The committee will come to order.

Senator CONROY—Mr Siemon, please finish what you were saying before the committee took over from you.

Mr Siemon—There is a point of view which would say that no essential goods should be taxed. There is another point of view—which I think we are probably more inclined to—that says let us look at what is proposed in this package and what is the most useful way of trying to put some balance back into the package. The reasons there are imbalance in the package are basically twofold—firstly, because there is a tax mix change and, secondly, because of the way in which the income tax cuts are structured.

From our point of view, the key thing to do is to remove food from the GST, to make it GST free. It would appear from our modelling—and our modelling may not be good enough because it is Melbourne Institute's earlier models—that it makes a major difference to the inherent distributional outcomes of an indirect tax restructure. The Melbourne Institute's third report showed that if you do a tax tidying up, an indirect tax rationalisation, which is part of this package, you replace some existing indirect taxes with the GST. If you leave food in there, you get an overall regressive outcome; if you take food out, it makes the big difference. It flips to a progressive change. From our point of view, that signals food as a key item. Your own modelling may come up with a difference, but that is sufficiently persuasive to us to say that food is probably the linchpin.

It is also sufficiently persuasive to us to say that taking food out as a conscious protective device is probably more important than the simplicity consideration of keeping food in. You can argue about how you treat rents. Obviously, input taxation already gives them a little bit of moderation price effects, but from our point of view the crucial thing is food.

CHAIR—Pity about the poor, though. It is a disgusting proposition.

Mr Siemon—If you would like me to clarify that, I am happy to tell you where we get to.

Senator CONROY—The last time I checked with the Melbourne Institute, they were using a proportion of expenditure of 25 per cent for food. Is that the figure they used in the modelling that you are referring to?

Mr Siemon—It would vary with households.

Senator CONROY—Sorry, for low income households. I think they were doing an average, to be honest, but I am not sure on that.

Mr Siemon—I would have to look at the table.

Senator CONROY—I was going to ask the Good Shepherd—if they are able—to supply the committee with any further details about household budgets, without privacy considerations being taken into account, because this has been a very live argument. I would put to you that one of the reasons there has been criticism of ACOSS is that they have not actually turned around to Melbourne Institute and said, ‘Look, low income households have the following expenditure patterns.’ They have just let Melbourne Institute make a decision and they have been locked into that. So both St Vincent de Paul now and the Good Shepherd have come to us and said, ‘In our real world experience, when we’ve been dealing with people in these circumstances, the genuinely low income earners and the genuinely needy, their expenditure on food is a much greater proportion of a household budget than anybody has really taken into account.’ It is a long-winded way of asking you to comment on that.

Ms Ayres-Wearne—Definitely. We would be happy to provide, along with others, more information in terms of case studies. But I think it is very clear, if you are looking at a family on an income support payment only or a combination of an income support payment with some employment—and I would like to make that point really strongly—in a context where we have economic growth, at the same time we have an increasing number of households who are, if you like, categorised as working poor. So while the cake may be getting bigger, there is also an increasing number of people who are on or below the poverty line, even when they are actually employed.

Senator HARRADINE—Underemployed.

Ms Ayres-Wearne—Yes, underemployed, sorry. In that sense, it is very important that, when we look at tax initiatives, we must see them within the context of the whole policy agenda. We have made that point strongly in our submission, but every point we consider here obviously is relevant. When you are looking at families that many of our workers see day by day, primarily they would spend their income on food, rent, essential services such as electricity, gas and possibly the telephone, though many of them only have incoming calls—

Senator CONROY—And none of them is subject to WST or any current taxes, are they?

Ms Ayres-Wearne—and public transport. Many of them would probably be using second-hand clothing stores and things like that. So their income is primarily tied up in the very basics of life. The reality is that, if you actually talk to a group of our workers, they make it very plain that, with the current income support payments they have, the best managed households—which most of them are endeavouring to be like—are hardly making do. From the number of people currently presenting at emergency relief agencies and other places—which has been very well documented in studies by ACOSS and other organisations—it is clear that people really are not managing now.

Also, with the wider structural changes going on in regard to an increasing user-pays emphasis in a whole range of areas—which we also fairly clearly documented in our submission—as an indirect tax, that is putting increasing burdens on low and middle income families. I think one of the most significant things that has happened in New Zealand since

the introduction of the GST is that the income distribution rate has never been wider. There is a growing number of people—not just people we would normally have categorised as the poor—who really are struggling. That is not just because of the GST; it is because of the GST in the context of this other wider structural reform. I think it is very, very important in that sense to see that, with many of these initiatives we are talking about, we are endeavouring to provide as much protection as possible to a growing number of people. That is really important from our point of view. We are often seen as a group of agencies who are trying to protect a small group of people or a fairly narrow group. I believe that is not true. I believe it is a growing number of people, and I think the New Zealand experience has shown that very clearly.

Senator CONROY—I have one final question. Modelling has been done—this committee has commissioned some and you have commissioned some—and, if it averaged it out to say that 25 per cent expenditure on food was the way to go, do you think it would underestimate the extent of the impact on the people you have been dealing with? Do you think food will be a greater proportion of their expenditure than 25 per cent?

Ms Ayres-Wearne—I have been doing a gambling survey on the Mornington Peninsula. There was an average household survey done there—where there is a significant number of low income families—and they came up with something like \$120 to \$150 a week average expenditure on food, with the other types of products that you buy for a household. Some of the average incomes in those areas, where there is a large number of low income families, were less than \$400 a week. So even if people are really pushing it, if it is \$100 and you only have \$400, that is 25 per cent of your income.

Senator CONROY—It is beyond that?

Ms Ayres-Wearne—Yes, definitely.

Mr Siemon—I just want to comment on that because the original question was partly directed at me. Your question goes to the heart of the issue of averages versus outliers in terms of the compensation argument. You are absolutely right to say that an average as derived from the HES is just that, an average. The more vulnerable groups who often emerge in financial counselling and emergency relief services, our material aid service and so on, will often have statistically unusual patterns of consumption.

I think it is absolutely right for the sort of modelling that Melbourne Institute have done to use the HES data because the HES data is the only reasonably coherent national sample data that we have got. But it is absolutely right to also say that HES averages need to be matched by a sense of what is the range beyond the average.

Senator CONROY—At least Fightback was compensating for the worst case scenario.

Senator HARRADINE—Getting back to what Senator Conroy was saying, let us face the fact that, in Melbourne and in some parts of Tasmania, you just cannot run around with no clothes on. You need a roof over your head. In the Melbourne institute figures that you are referring to, food on that lowest quintile was around 24 per cent. The other necessities of life, including shelter, electricity, heating, clothing and transport, ran into about 38 per cent.

So, on the one hand, you have food at 24 per cent; on the other hand, you have these other, as you would agree, physical necessities of life. I cannot quite follow how you then say that you are focusing only on one area of necessity of life and not the others. It intrigued me. For example, if you are thinking of exempting food, what do you think the people you look after will think about the parliament exempting the slap-up dos that people have every night in the restaurants in Melbourne, the high fliers with no families and no struggle? What if we exempt them for their slap-up dinners in restaurants in Melbourne and not exempt shelter for people who are trying to get shelter or heating in Melbourne?

Mr Siemon—I understand your point. When we are talking about food, we are talking about household food, primarily not restaurant meals. I am aware of the arguments about the complications that produces. Professor John Nevile's points presented by Anglicare are probably worth bearing in mind. These things have worked in other places and there is no reason why they cannot work. If small business loses out in terms of having to have their life a little bit more complicated, then there may be ways in which you can adjust that. That is the first point.

Secondly, for us the issue is not how you draw a line of necessity as to the point about what you do with this package in terms of trying to improve it. The reality is that, among many of the necessities that we are talking about, some of them have been taxed in different ways. Electricity and gas in Victoria were very heavily taxed at various times by way of public authority contributions, public authority dividends and so on. Petrol, which most Australian households use in fairly large amounts—and it is a fairly large item in the budgets of lower income households—is very heavily taxed in this country. When we had higher tariffs, imported clothing was very heavily taxed.

I do not think our understanding of the tax system is that you can completely confine a group of commodities which are essentials and make them entirely exempt from the tax system. However, having said that, I would absolutely agree with you that it is quite proper for policy-makers to put preferences—social preferences—into the tax system. The wholesale sales tax system, its evolution—I think Julie Smith has given you a presentation around this point—is actually one where you can see that social preferences are exhibited in the design of the tax system. There is no reason, from our point of view, why governments should suddenly abrogate their responsibility about saying that one thing needs to be taxed more lightly than another.

From the point of view of this package, our priority would be to take food out. If the Senate decides that it wants to extend that to other things broadly seen within necessities, I do not have any particular problem with doing that but, from our point of view, probably the most crucial decision that you can make is about taking food out because it is a fairly clear demarcation that you can have, and it seems to us that the numbers basically add up. If you take \$5 billion out, you can knock down the total amount of money that is raised in consumption taxes. You can get balance back into the system. You can wind back the income tax cuts and you can have a package which, on balance, is much less regressive than the current package would seem to us to be. And it seems to us to be a perfectly achievable outcome from these discussions.

Senator CONROY—VECCI demanded a further \$3 billion worth in expenditure cuts two weeks ago.

CHAIR—Order!

Mr Siemon—Yes, I understand that—

CHAIR—You do not have to answer that. Senator Harradine, do you have any questions?

Senator HARRADINE—Will that not put a dent in the funds that would be required to provide a proper compensation? We had evidence yesterday from the food council that the compensation that is proposed in the ANTS package is absolutely inadequate. If food is taken out, will that not affect substantially the amounts which would be needed for compensation? I am talking about the 38 per cent as against 24 per cent.

Mr Siemon—It will leave a financial hole in the package if you make food GST free. Our understanding of the numbers—and we have not presented these, but I know other people have presented estimates to you for this—is that you can fund that by winding back the income tax cuts. There are other tax options available.

I would make the point that the welfare sector generally—I think this is very clear on the record from ACOSS and it is certainly clear on comments from my executive director; it is clear on comments from other organisations—has been very clear in this whole process that we did not want to have a regressive package which required compensation to fix it up. We wanted a package that was inherently neutral in its distributional impact or progressive. We are not a fan of compensation. The suggestion here is that, if you remove food from the GST, you can have a package which does not have to rely on compensation. So, rather than needing more money for compensation to deal with the more extreme cases or to deal with the reality that the government has underestimated the impacts on lower income households, rather than having to put more compensation in it, a lot of that compensation arises through the removal of food. So I do not see the problem that you are raising as a particular problem. I think the funds are there and the trade-offs are there.

Senator HARRADINE—You still have to compensate the 38 per cent. We are talking about the necessities of life.

Mr Siemon—But the overall price effect on households will be much lower if you take food out.

CHAIR—We are five minutes over the allotted time. We did start late. If we do not close down by 4 o'clock, and it is now nine minutes to, we will not get the *Hansard* of any of this evidence.

Senator HARRADINE—I am sorry.

CHAIR—I am not directing any of this at you, Senator Harradine. You are by no means the worst offender; in fact, you are the most inoffensive of all the inquisitorial senators. I

just draw it to the attention of the committee that there are some further questions to be asked. Do you have any further questions, Senator Harradine?

Senator HARRADINE—No.

CHAIR—Senator Murray.

Senator MURRAY—Thank you, Mr Chairman. I will confine my questions to just one set and to Dr Duncan, as somebody who has done some work in this area. You might like to write some of these things down, Dr Duncan.

On page 178 of the ANTS package, they have a single person table which is entitled ‘How do cuts in tax and changes to benefits affect me?’ For a person on a private income of \$15,000—that is a single individual—the value of the tax cuts is \$6.80. For a person on \$150,000, which is the maximum, the value of the tax cuts is \$85.77. I will just use round figures, if I may. So we have somebody on \$7 tax cuts and somebody on \$86 tax cuts. I recall the government’s figures as being \$13 billion with regard to the proposal for income tax cuts in total. If you take \$5 billion out of the revenue package and pay for it completely out of the income tax cuts, there would only be \$6 billion left for income tax cuts.

Since 56 per cent of all tax cuts go to the highest 20 per cent of the population, the proposal is to drastically reduce their tax cuts. I will give you some figures as to notionally how this might work—and I have not costed them, so this is indicative only.

For the person on \$7, there would be no change in tax cuts because they are not to be addressed. For the person on \$86, their tax cuts might be reduced to \$30 a week. I will set that aside. You have given evidence, as have Professor Quiggin and others, that the cost per head of population of food consumption, excluding restaurant meals, is roughly equivalent. If the value of making food GST free was \$10, it would then be \$7 plus \$10 for the low income person—\$7 income tax cuts and \$10 food benefit; that is \$17—and for the high income person who has had tax cuts taken away from them but kept \$30, it would be \$30 plus \$10, which totals \$40. Would you agree that that delivers not only a better, more progressive tax result but also it still gives much more to the higher income person per week than it gives to the lower income person?

Rev. Duncan—Certainly, on those figures, that is true. I think it is even more positive than that because if food is exempted from the GST then the amount of compensation which the government needs to provide is not as great. So I think the loss of income will only amount to about half the \$4.5 billion that would be forgone by exempting food because of the lesser need to compensate. That means that possibly—I have not worked this out—there would be more room for more generous tax cuts than that.

Senator MURRAY—Wouldn’t you, as a socially orientated organisation, regard it as a ludicrous proposition that simply because the lower income person was to get a \$7 tax cut plus \$10 food benefit because food was to be GST free, whilst the higher income person might get a \$30 tax cut plus \$10 GST-free food, that because the rich are getting a benefit that benefit should not be given to the poor when you see how dramatically it escalates the benefit to the poor?

You are taking somebody with a \$7 benefit to a \$17 benefit, which is more than doubling it, and the other person you are lifting from a \$30 benefit to a \$40 benefit, which increases it by one-third. How do you react to that argument, because that is the argument that is being put to you—that it is unfair to give this amount to the upper income person? Why?

Rev. Duncan—I am not sure of the point you are driving at here.

Senator MURRAY—The point I am driving at is that the question that was put to the panel earlier was that the primary benefit of making food GST free accrues to the top 60 per cent certainly but possibly the top 80 per cent income profiles versus the 20 per cent at the bottom.

Rev. Duncan—The benefit of making food GST free, did you say?

Senator MURRAY—Yes, making food GST free primarily in sum total—in \$4 billion out of the \$5 billion, for instance. My response to that to you is the way in which that is being paid for is by taking income tax cuts from those people. Giving them back \$10 a head, for instance, in a food benefit is merely restoring some of the benefit which was taken away from income tax cuts.

Rev. Duncan—I am sorry, Senator; I am not following the drift of it. I do not want to hold things up.

Senator MURRAY—The argument being put to you is simple. The argument put by the government and others is that you should address the compensation level and not take food out, because by taking food out, you are giving more benefit to the rich than to the poor.

Rev. Duncan—The government argument?

Senator MURRAY—That is right. I am merely showing you mathematically that if you take food out, make it GST free, the benefit to the poor increases on these indicative figures. It doubles the benefit and it only increases the benefit to the rich by one-third of what they were going to enjoy after you have reduced their income tax cuts.

Rev. Duncan—So proportionately to their income, the poor do better out of that than the rich do?

Senator MURRAY—I am leading you, and the committee will understand what I am doing. I am trying to get you to recognise that this is a more progressive method of dealing with this problem than reinforcing compensation.

Rev. Duncan—You can work out an argument that, without exempting food, you can increase the level of compensation. I think an economist would be able to work that out. The difficulty is, I think, that it then becomes a political question about what level of compensation is going to be adequate and how that can be maintained. It basically goes back to a political response, as we said: can we trust governments over a period of time? I think

our response to that is that it is a much safer and a less tempting way for governments to exempt food altogether from that situation.

Senator MURRAY—In the evidence put to us by those who argue the compensation route, not one witness has suggested to us a compensation package, a percentage increase, which comes close to the benefit of having an income tax cut for a low income person at \$7 and giving them a \$10 per head food benefit—not one—because that is more than doubling the real benefit they get from the package. That is what I am asking you to consider when you weigh up the arguments: should you increase compensation, or should you make food GST free?

Senator GIBSON—You mentioned the Melbourne Institute making a case for excluding food, but are you aware that Dr David Johnson, who does all the economic modelling work for the institute, is in favour of leaving food in the base, as are all the economic modellers that have given evidence to our committee?

Mr Siemon—I certainly would not want my comments about the Melbourne Institute study to be misrepresented as representing the views of the authors. We are a member of a steering committee as an industry partner. The views which we put in the submission are our understandings that we as an organisation have gained through looking at their work. They are not their views. I will be interested to see the final Melbourne Institute reports. The details which will be coming out probably will not be in time for your deliberations. I think the key thing for me would be the tables in the third report which look at the distributional impacts of having food in or out of a GST. They are very striking from my point of view. It really does make a very big difference.

CHAIR—I thank the Brotherhood of St Laurence, the Good Shepherd Youth and Family Service and the Catholic Social Services for aiding our inquiry this afternoon.

Committee adjourned at 4.00 p.m.

