



COMMONWEALTH OF AUSTRALIA
PARLIAMENTARY DEBATES

SENATE

Official Committee Hansard

ECONOMICS LEGISLATION
COMMITTEE

(Consideration of Estimates)

FRIDAY, 14 NOVEMBER 1997

BY AUTHORITY OF THE SENATE
CANBERRA 1997

CONTENTS

FRIDAY, 14 NOVEMBER

Department of The Treasury—	
Program 9—National Competition Council	612
Program 8—Business Affairs—Subprogram 8.1—Australian Securities Commission	617
Program 1—Treasury—	
Subprogram 1.1—Domestic economy	636
Subprogram 1.2—International economy	656
Subprogram 1.4—Taxation	668
Subprogram 1.8—Financial and currency	668
Program 4—Taxation Administration—Subprogram 4.1—Income and other taxes	668
Program 7—Insurance and Superannuation Commission—Subprogram 7.4—Superannuation	668

SENATE**Friday, 14 November 1997****ECONOMICS LEGISLATION COMMITTEE****Portfolios:** Treasury; Industry, Science and Tourism; Workplace Relations and Small Business**Members:** Senator Ferguson (*Chair*), Senator Jacinta Collins (*Deputy Chair*), Senators Bishop, Chapman, Murray and Watson**The committee met at 9.12 a.m.****DEPARTMENT OF THE TREASURY**

Proposed additional expenditure, \$204,346,000 (Document A).

Proposed additional expenditure, \$96,650,000 (Document C)

Consideration resumed from 12 November.

In Attendance

Senator Kemp, Assistant Treasurer

Department of the Treasury—

Mr Ted Evans, Secretary

Mr David Borthwick, Deputy Secretary

Mr Jim Murphy, First Assistant Secretary, Business Law Division

Mr Mike Callaghan, First Assistant Secretary, Economic Division

Dr Barry Gray, Assistant Secretary, Economic Division

Mr Graham Matthews, Assistant Secretary, Economic Division

Mr Greg Smith, First Assistant Secretary, Financial Institutions Division

Mr John Jepsen, Acting First Assistant Secretary, Fiscal Policy Division

Mr Stephen French, Assistant Secretary, Fiscal Policy Division

Mr Mike Kooymans, Acting Assistant Secretary, Fiscal Policy Division

Mr Tony Hinton, First Assistant Secretary, International and Investment Division

Mr Neil Hyden, First Assistant Secretary, (International) International and Investment Division

Mr Peter McCray, Assistant Secretary, International and Investment Division

Mr Gary Johnston, Assistant Secretary, International and Investment Division

Mr Chris Stevens, Section Head, International and Investment Division

Ms Caroline Walker, Section Head, International and Investment Division

Mr Andrew Johnson, Section Head, International and Investment Division

Mr Richard Murray, Acting First Assistant Secretary, Taxation Policy Division

Dr Ken Henry, First Assistant Secretary, Tax Reform Group

Ms Karen Chester, Assistant Secretary, Personal Income and Corporate Tax Branch, Taxation Policy Division

Ms Lynne Curran, Assistant Secretary, Commonwealth/State Taxation Branch, Taxation Policy Division

Mr Bruce Paine, Assistant Secretary, International Taxation Branch, Taxation Policy Division

Mr Terry Lowndes, Assistant Secretary, Business Taxation Provisions, Taxation Policy Division

Mr Stuart Sargent, Acting Assistant Secretary, Indirect Taxation and Taxation Review Branch, Taxation Policy Division

Mr Chris Hood, Assistant Secretary, Taxation Reform Group

Mr Allan Read, Assistant Director, Accounting and Finance Directorate.

Industry Commission

Ms Helen Silver, First Assistant Commissioner, Melbourne

Mr Garth Pitkehly, First Assistant Commissioner, Canberra

Australian Competition and Consumer Commission

Mr Hank Spier, General Manager

Australian Securities Commission

Mr Peter Day, Deputy Chairman

Mr Joe Longo, National Director, Enforcement

Mr Ian Mackinlay, Director, Corporate Services

Mr Greg Tanzer, Regional Commissioner, Australian Capital Territory

Royal Australian Mint

Mr Graeme Moffatt, Controller

Mr Ian Hamilton, Director, Finance and Supply

Australian Taxation Office

Bruce Jones, Second Commissioner

Peter Simpson, Second Commissioner

Legislative Services and Tax Counsel Network

Mano Manoranjan, First Assistant Commissioner (Legislative Services)

Michael D'Ascenzo, Chief Tax Counsel

Catherine McPherson, Director Parliamentary Business Unit

High Wealth Individuals

Kevin Fitzpatrick, First Assistant Commissioner (High Wealth Individuals)

Small Business Income

David Butler, Deputy Commissioner

Financial Services—RAB

Mark Jackson, Assistant Commissioner

Superannuation

Michael Monaghan, Deputy Commissioner

Leo Bator, Assistant Commissioner

IT Services

John Growder, Acting First Assistant Commissioner

Australian Bureau of Statistics

Mr Dennis Trewin, Deputy Australian Statistician, Economic Statistics Group

Mr Rob Edwards, First Assistant Statistician, Economic Accounts Division

Mr Graham Wauchop, First Assistant Statistician, Corporate Services Division

Dr Siu-Ming Tam, Acting First Assistant Statistician, Social and Labour Division

Mr Robin Green, Assistant Statistician, Labour Statistics Branch

Mr Steve Matheson, Assistant Statistician, Financial Resources Branch

Ms Marion McEwin, Assistant Statistician, Social Statistics Branch

National Competition Council

Mr Ed Willett, Executive Director

Ms Deborah Cope, Deputy Executive Director

Insurance and Superannuation Commission

Mr Tom Karp, Acting Commissioner

Mr Keith Chapman, Deputy Commissioner Superannuation

Mr Bob Glading, Deputy Commissioner Life Insurance

Mr Greg Plummer, Assistant Commissioner Superannuation Group

Dr Darryl Roberts, First Assistant Commissioner Policy, Legal and Actuarial

Mr Craig Thorburn, Australian Government Actuary

Mr Richard Smith, Deputy Commissioner General Insurance

Mr David Holmesby, Assistant Commissioner Corporate Services

Mr Pat McInerney, Director Financial Management

Mr Stuart Evans, Assistant Director Financial Management

Department of Finance—

Gordon Lister

Sonia Rainbow

Kelly Ralston

Wayne Turner

CHAIR—I call the committee to order. We will continue our consideration of estimates and will commence with the Treasury portfolio and the National Competition Council, program 9. Minister, do you have any comment you want to make before start?

Senator Kemp—Just a brief comment. As I said, we are always happy to assist the committee in any way we can. Senator Cook asked me to respond to a number of questions and I have a response here for him.

CHAIR—Minister, Senator Cook will be here after we have concluded the National Competition Council. Would you like to wait until he is here?

Senator Kemp—I am easy.

CHAIR—I think it probably would be better to wait until he is here, otherwise we will have to relay them.

Senator Kemp—You know, Mr Chairman, as is always my practice, I am anxious to assist the committee.

CHAIR—Thank you, Minister. I call for questions on the National Competition Council, program 9.

[9.14 a.m.]

Program 9—National Competition Council

Senator JACINTA COLLINS—The first area that I have questions in relates to the electricity reforms. Can you advise me of what payments were made to each of the states and territories in the first round of payments?

Mr Willett—The council recommended that full payments for the first year of the first tranche be made to all states and territories. It will be reviewing some issues by July next year to consider whether it should make a similar positive assessment in relation to the second year of the first tranche of payments. Electricity is not one of those issues that is going to be considered.

Senator JACINTA COLLINS—The NCC made that recommendation, but why was that still the case with the slippage that you had reported in relation to the national electricity market?

Mr Willett—There was a slippage there, but there was also subsequent agreement by governments on an implementation timetable. Governments are now more or less adhering to that implementation timetable. That was the difference between electricity and gas at the time the council made that assessment. In electricity, governments had agreed that yes, things had slipped and this is the timetable we are now going to adhere to. Once governments have unanimously agreed to that, that is what the council takes into account in gas reform. That had not happened at that time.

Senator JACINTA COLLINS—So you have confidence that they will meet the requirements for the second tranche.

Mr Willett—There are further requirements for the second tranche. In particular, as the council said in the annual report, it will be looking to ensure that all jurisdictions that have obligations under the electricity agreements apply those obligations comprehensively and they will be looking particularly to derogations against the code and transitional arrangements.

Senator JACINTA COLLINS—Moving on to gas, did the NCC have reservations in recommending the first tranche of payments?

Mr Willett—The council said that governments had not met their obligation to implement, in particular, a uniform access framework by the agreed date of, I think, 1 July 1996. At that time, governments had not agreed to a delayed implementation time frame and there was no agreement to that uniform framework. So the council said that it would revisit that issue in the context of its first tranche assessment one year later.

Senator JACINTA COLLINS—With respect to the recent COAG communique on gas reform and the agreement by the heads of government that each jurisdiction will establish the

uniform arrangements governing third party access to national gas pipelines by legislating, are you confident that all jurisdictions will introduce legislation by 31 June 1998?

Mr Willett—Yes.

Senator JACINTA COLLINS—Are you aware of any impediments to that process?

Mr Willett—There have certainly been some questions raised. As you probably know, South Australia is the lead legislator. By and large, the arrangements will be implemented by jurisdictions picking up South Australia's legislation as lead legislator. There was a question about whether South Australia would be in a position to do that as a consequence of the recent elections. I understand that that is not going to be an impediment. There have been other questions raised, but as far as I know there is now no impediment to implementation of all those arrangements.

Senator JACINTA COLLINS—After this legislation, are you aware of any impediments to the overall process that will exist then?

Mr Willett—To implementation of the uniform access code?

Senator JACINTA COLLINS—Yes.

Mr Willett—No, I cannot say that I am.

Senator JACINTA COLLINS—Okay. I would like to move on to third party access provision of competition reforms with respect to Australian cargo terminal operators.

Mr Willett—Sure.

Senator JACINTA COLLINS—I understand that there has been concern expressed in some quarters regarding your decision to recommend the declaration in relation to FAC hard aprons and stands at Sydney and Melbourne airports; in particular, a Professor Bob Baxt, former Chairman of the Trade Practices Commission, expressed his concerns. Can you briefly explain the reasons for the NCC's recommendations?

Mr Willett—Briefly, international airports basically do three things. They allow international aircraft to land and take off, they allow international aircraft to load and unload passengers and they allow international aircraft to load and unload international freight. The recommendation on the ACTO matter was for declaration of services provided by Sydney and Melbourne international airports in relation to the loading and unloading of international airfreight.

Senator JACINTA COLLINS—Yes, I know what the decision was in relation to; I am asking about the reasons for that decision.

Ms Cope—The assessment was against the criteria that we are required to assess against. We need to look at whether we think that declaration will promote competition in another market. We said that getting access to hard stands and freight aprons for other operators to be able to provide cargo terminal services would increase competition in those services, because at the moment they are only provided by Qantas and Ansett. We said that we have to look at whether it is economically feasible to duplicate the facilities and we said that it was not possible for somebody to build another international airport to be able to provide those services. That has got a lot to do with the fact that the planes are landing at those airports because of their passengers and it would not be possible for somebody to set up another facility to be able to access that cargo.

We need to assess whether the facility is nationally significant, and we said that the importance of international airfreight coming through those two airports was important to the Australian economy. We need to assess whether access can be provided safely. We said that

there are very similar services provided overseas and that it is possible to have the safety arrangements in place which allow people to come on and off the airport to provide those sorts of services. They are the sorts of reasons that we went through to say whether or not we thought that it would be declared.

Mr Willett—The reasons for the council's recommendation on this matter are some 70 pages long. The council has also provided a response to Professor Baxt's concerns. I am happy to arrange for copies of both those documents to be forwarded to you.

Senator JACINTA COLLINS—If you could do that. More specifically, though, what is your response to the claim that there was nothing to stop ACTO from setting up their own apron and stands at the airport, which was what was expected of Compass when it was operating?

Mr Willett—The questions are quite different. Basically, for ACTO to contest the services that that declaration was recommended for, it would either have to have access to the airport as we have recommended or it would need to construct another international airport.

Senator JACINTA COLLINS—Yes. But one of the options, as applied with Compass, was one of the intermediary positions. It was expected to set up some of its own infrastructure on current airport facilities. Why was that not an option with respect to ACTO?

Mr Willett—It is. That is what we would expect ACTO to do. But they need access to the airport to do that.

Senator JACINTA COLLINS—So it is a question of the extent of access?

Mr Willett—Exactly.

Senator JACINTA COLLINS—I look forward to reading your response. We will move on to Telstra. I would like to touch briefly on the concerns expressed on page 109 of your annual report regarding the public float of Telstra. Given that Telstra is understood to be a public monopoly, can you advise the committee why the government did not give a reference to the NCC to investigate the competitive impact of the proposed privatisation?

Mr Willett—That is a matter for the government. There is no obligation under the competition policy agreements for the government to do that.

Senator JACINTA COLLINS—If you had any concerns, did you at the time relay them to the minister's office?

Mr Willett—The question of whether the Commonwealth conducted a review of issues contained in clause 4 of the competition principles agreement on the privatisation of Telstra was raised both informally and formally with the Commonwealth.

Senator Kemp—I think I can provide some further information on that matter for you. In the period before full deregulation, the domestic telecommunications sector had been subjected to a significant number of reviews that focused on issues relevant to both the partial sale and broader competition issues. These reviews included the telecommunications policy review, the Telstra scoping study, the review of the standard telephone service and the Senate Environment, Recreation, Communications and the Arts References Committee report entitled *Telstra: to sell or not to sell*. The pre-privatisation review would have had to duplicate much of these other reviews. In any case, matters relevant to both the partial sale and the application of the competitive neutrality principles to Telstra have already been or are currently being addressed.

The application of competitive neutrality to Telstra was addressed during the development of the deregulatory framework to apply to telecommunications post July 1977 as well as to the Telstra scoping study. Assessment of the appropriate commercial objectives of Telstra is addressed in an ongoing sense in the government's GBE accountability and governance framework. Importantly, the government made a clear commitment in the election that Telstra would not be structurally separated. Other election commitments were that Telstra's community service obligations would be maintained. All carriers would continue to have a universal service levy, and a price capping regime would continue to be applied to Telstra.

Senator JACINTA COLLINS—Thank you, Minister. Wouldn't it be wonderful if the government were as keen and committed on some of its other election commitments.

Senator Kemp—I am genuinely shocked by that attempt to make a political point, after all that we have been through. I will not even respond.

Senator JACINTA COLLINS—Thank you, Minister. Despite your response, the NCC did still report some concerns in their annual report. That is what I am seeking to explore at the moment.

Senator Kemp—That is fine. I am not arguing your right to ask the question.

Senator JACINTA COLLINS—Mr Willett, could you inform the committee of the nature of both the formal and informal discussions that the NCC had with the government in relation to this issue?

Mr Willett—On a number of occasions, the council pointed out the requirement to conduct a review. In the view of the secretariat at that stage, it looked as though clause 4 would be triggered and that a review would be required. Leading up to the publication of the annual report, the council raised all the issues relating to the Commonwealth, which the council planned to comment on in the annual report, to seek a formal response.

Senator JACINTA COLLINS—You have told me on the one hand that there is no obligation for the government to require the NCC to conduct a review, but on the other hand you have told me that it looked as though the government was going to be required by clause 4. What is clause 4?

Mr Willett—It is a clause of the competition principles agreement that relates to structural reform obligations for GBEs.

Senator JACINTA COLLINS—Which requires a review?

Mr Willett—It requires a review. It does not require that a review be conducted by the council.

Senator JACINTA COLLINS—What type of review does it require? There could be a very busy Senate references committee process if that is the case.

Mr Willett—That is possible, Senator.

Senator JACINTA COLLINS—Senator Kemp referred to the Senate committee report into this matter. Is it that Senate committees will become an alternative to the NCC in conducting reviews?

Mr Willett—There are no specific obligations in the agreements that go to the type of reviews to be conducted. I would envisage that a review of this nature would be specifically conducted in the context of the commitments in the agreements. It would be done through a robust process.

Senator JACINTA COLLINS—I thought that the NCC is there to conduct such reviews.

Mr Willett—You are right. The council has always intended to conduct reviews on competition policy matters. I do not think it was intended, however, that the council would conduct all such reviews.

Senator JACINTA COLLINS—Can you inform me why the NCC did not lodge a submission or seek to appear before the Senate Environment, Recreation, Communications and the Arts References Committee when it was conducting its Telstra inquiry?

Mr Willett—The council's role is to provide advice to governments on competition policy reform matters and, in particular, on the implementation of agreed reforms. It does that by raising issues—

Senator JACINTA COLLINS—Just to the government?

Mr Willett—Yes, to governments. In this area, the role of the council is to provide advice to governments. From time to time, that involves raising issues of possible concern with governments by the council. It does not raise those concerns publicly. It has the opportunity in its formal reporting obligations to outline the activities conducted during the year. That is what it has done in its annual report.

Senator JACINTA COLLINS—Why could the ACCC make a submission and not the NCC?

Mr Willett—There is an issue with the council making a submission to these types of review in that it has this assessment role, and the council would not want to be seen to be prejudging its objectivity in making those assessments by engaging in the public debate on implementation of these reforms during the consideration process. It is a general rule that applies. So, as a general rule, it does not provide submissions to these types of public processes.

Senator JACINTA COLLINS—Would not the same concerns apply to the ACCC?

Mr Willett—No, it would not. The ACCC does not have the assessment role that the council has.

Senator JACINTA COLLINS—At all?

Mr Willett—The ACCC does not assess whether governments have met their obligations on the implementation of agreed reforms. That is the council's role. The ACCC is a regulator and it will from time to time, I am sure, have an interest in policy debates. As a consequence of that interest or its expertise, it makes submissions.

Senator JACINTA COLLINS—In relation to that role, has the NCC commenced, or is it intending to commence, an assessment of the privatisation?

Mr Willett—No, it is not.

Senator JACINTA COLLINS—It is not intending to?

Mr Willett—No, it is not the council's role. The council's role is simply to comment on whether governments have met their commitments, and the commitment here is to conduct a review. The council has commented in its annual report that it considers that the Commonwealth has not fully met its commitments in this area, or at least on the evidence available to the council.

Senator JACINTA COLLINS—Moving now to the review of legislation with respect to the pharmacy area, on page 62 of your annual report you express concerns regarding the government's proposal that pharmacy legislation be subject to a national review as late as 1999, particularly given your stated desire to avoid reviews of legislation that significantly

restrict competition being scheduled towards the end of the legislation review period which ends in the year 2000. Can you advise why the government sought to postpone a review of the pharmacy legislation, particularly as the state reviews which were scheduled for the period 1997-98 have been deferred?

Mr Willett—I cannot comment on the Commonwealth reasons there, but I can reiterate what is in the annual report that this is a complex matter. It involves a whole series of arrangements—Commonwealth, state and contractual. As a consequence, the council sees it as desirable to conduct a comprehensive national review of all these arrangements. Its preference would be that the review was conducted somewhat earlier than 1999, particularly given the obligation to implement appropriate reforms by the year 2000.

Senator JACINTA COLLINS—Do you have an estimate of the cost that would be incurred by delaying appropriate reforms in this area?

Mr Willett—No, I do not. The council has not done any research in this area.

CHAIR—As there are no further questions for the National Competition Council, I thank you very much for your attendance this morning. I apologise that you had to come back and wait for so long.

[9.34 a.m.]

Program 8—Business Affairs

Subprogram 8.1—Australian Securities Commission

Senator CONROY—I have just been trying to gather a bit of information. I understand you relatively recently signed another memorandum of understanding with the ASX. Could I get the latest copy? I have been able to track down a couple of copies from 1992, 1993 and 1994, but I understand you signed one within the last 12 months.

Mr Longo—The ASC has several memoranda of understanding with the ASX. As the senator has pointed out, most of them were signed in the early 1990s. I am not personally aware of any new MOUs in the last 12 months or so, but there are certainly three in existence which deal with the various issues.

Senator CONROY—There are only the three?

Mr Longo—I think so. I am almost certain of that. I would be very surprised if there were any more. There is certainly talk from time to time of developing procedures according to those MOUs, but to my knowledge the MOUs themselves have remained the same. I am quite happy to see that you are provided with copies of all of those.

Senator CONROY—I have the one on membership matters from 1993, the one from about 1991 on markets and the one on companies matters. Do they sound like the three?

Mr Longo—That is right. Just to be sure there is no misunderstanding, I will have my office make sure that what you have is what you should have, if I can put it that way.

Senator CONROY—What is the status of these documents? It was put to me by the ASX in actual fact that these were confidential documents and they could not supply me with them, which I was a bit bemused about. I assumed that they were relatively freely available, and I do not mean that they have been posted on a wall somewhere.

Mr Longo—I thought they were publicly available. I am just trying to remember now whether they were in the ASC digest.

Senator CONROY—I assumed that they were publicly available.

Mr Longo—I had better take that on notice. I cannot say that, since I have been with the commission, I have ever sent copies of the MOUs to anyone other than within the law enforcement community, if you like. So I might take advice on that as well.

Senator CONROY—Thank you. I appreciate the information you supplied to me following a different committee meeting. I also raised a couple of issues to do with HAOMA, and I appreciate the information on the staffing.

ASC has received a fairly major increase in funding going back to 1990. At that time it was approximately \$140 million. In recent years the ASC has been under financial pressure. In 1994-95 its funding was roughly \$137 million. In 1995-96 it was \$128 million. I think this financial year it was \$125 million. Do those rough figures seem to be right?

Mr Mackinlay—Could you just clarify that again?

Senator CONROY—They are the parliamentary appropriations. Starting at 1990 it was about \$140 million, and it has gradually decreased to about \$125 million in the last financial year. Does that seem about right?

Mr Mackinlay—That is about right, yes.

Senator CONROY—Does the ASC consider it has been adequately funded and researched to carry out its responsibilities at the moment? I am starting generally, and we will work from there.

Mr Longo—Over the last two years there have been cuts to our budget. We have tried to address that through a series of projects known as the ASC 2000 projects. We have absorbed those cuts and have done so in a variety of ways designed to ensure that we can continue to adequately perform our functions. That is achieved in a variety of ways. So we believe that we are able to continue to be a credible regulator with the current level of funding.

Senator CONROY—The NCSC had staff going through the records of annual accounts that had been received to check that companies were complying with the law. In an article from the *Financial Review* a few weeks ago, which I am sure you have probably seen, Stuart Grant raised a number of concerns that seem to have been supported by a number of other organisations about your surveillance of financial reports. He seems to think that you are abandoning the surveillance. What is the process of proactively examining the annual accounts reports lodged with the ASC by corporations? What do you have at the moment?

Mr Longo—That issue is really part of a bigger subject, and that is to do with how we allocate resources to enforcement generally. I think the issue you have raised is in two surveillance activities in particular. That is an issue that we are assessing from year to year, and it reflects our view of what is happening in the market at the time. It also reflects an assessment or view of what has worked in the past and what requires attention in the future. So we have not abandoned accounting surveillance altogether. We have deployed our resources in a way to that issue which reflects our understanding of what is happening in the market. That may not always be what other people want us to do, but it is our judgment on this matter.

Senator CONROY—So could you just take me through the process that you are now moving away from?

Mr Longo—What I am just saying is that that is a subject which reflects judgments across a variety of fields. There are accounting issues and there are market issues. Surveillance is a technique or strategy that is part of our overall enforcement effort. In the accounting area, we have found that the surveillance we have done has produced good results. Fundamentally,

what the regulator was about is to foster an environment of compliance. We feel that in the accounting area that has come a long way to achieve that goal.

Senator CONROY—You are suggesting that what you were doing previously had created that environment of compliance. Why then do you believe if you move away from that that you will continue to maintain that environment?

Mr Longo—Again, that is a matter for judgment, but we feel that the environment of compliance has reached a certain standard. As I mentioned earlier, surveillance is one of the techniques or strategies that one adopts to do that.

Senator CONROY—Mr Grant said:

. . . checks on up to 500 company reports annually uncovered defects in roughly 40 per cent of financial reports, with one in five problems considered significant.

So it is happening even though you have that environment. You are not concerned at all that, if you do not have that accounting check, those sorts of significant problems that he is referring will not go away? Do you think there is an alternative there to take up the slack for what you have previously been doing?

Mr Longo—I note Mr Grant's view. All I can say is that the surveillance that has gone on in the past—and, to some extent, continues to go on—has achieved a high level of compliance. The commission has not abandoned its duty so far as enforcement of accounting standards is concerned. Mr Grant is entitled to his view.

Senator CONROY—From this newspaper article, it seems to be more than just Mr Grant's view. There is this reference:

The unwinding of surveillance of company reports has drawn criticism from a business lobby, the Group of 100, and from the two accounting profession organisations and standards-setting bodies.

Have you received any correspondence from them on this issue?

Mr Longo—I am aware of Mr Grant's view, and I have read the article you are referring to. The article asserts that is the view of the accounting bodies. I am simply saying that the approach of the commission absorbs those various views, and we have our own market intelligence. We are very conscious that a major part of our role is to foster an environment of compliance, and surveillance is one of the ways that can be achieved.

Senator CONROY—You say that the article asserts that. What I asked was: have you received any correspondence from those organisations on this issue?

Mr Longo—I think Mr Grant has received correspondence, yes.

Senator CONROY—But Mr Grant works for the ASC. I did not necessarily mean that—has the ASC received any?

Mr Longo—Yes, I think we have received some correspondence, but I am not very familiar with its contents.

Senator CONROY—Is it possible to get a copy for the committee?

Mr Longo—I do not see any problem right now with providing you with a copy. I would probably want to get the consent of the people who sent it to us, but that should not be a problem.

Senator CONROY—It is correspondence to you, so it has become your property. It is not a question of whether it is their property. They have written to you with a view. I would be surprised if you were to come back in the next few days and say that it was not available for the committee.

Mr Longo—I cannot readily point to a reason now why we would not do it. I am merely saying that the commission receives correspondence from a wide variety of sources. We welcome it. We are an open sort of regulator, and sometimes it may not be appropriate, if it is confidential material—

Senator CONROY—If it is commercial-in-confidence, I accept that, or if there was an ongoing—

Mr Longo—I will just have to take that on notice. For the moment, I do not see any reason why that should be a problem. I would like to take that on notice.

Senator CONROY—That is the group of 100 and the two accounting professional organisations and standard setting bodies. Those are the three organisations. Mr Greg Pound also seems to express some concerns. He suggests that the high degree of compliance was due in large part to the perception that the ASC was active in the market. He said that he thought the pull-back was probably a backward step. So the view seems to not just be Mr Grant's.

Mr Longo—Yes.

Senator CONROY—Dismissive is probably not the way you intended it, I am sure, but you seemed to be suggesting that this is only Mr Grant's view. Mr Pound is with the Australian Accounting Research Foundation.

Mr Longo—I would not want the committee to feel that the commission would ever be dismissive of Mr Grant's view—

Senator CONROY—That was probably the wrong word.

Mr Longo—or of the views of those other organisations. They are obviously views that deserve careful consideration and weight. I am simply trying to explain that the concept of enforcement of accounting standards is a complex one. Surveillance is one of the strategies one adopts. We have a very active role to play with granting dispensation from compliance with accounting standards in special circumstances under section 313.

That in itself becomes another area or opportunity where we can assert our view about enforcement. We take an active role in the courts. We took on Orbital Engine in its capital reduction only 18 months ago when there was a significant issue with a write-down. We took that to the Federal Court, and I think we prevailed.

The impression I want to leave the committee with is that it is a sophisticated response to the issue that we are trying to promote. We live in a complex environment and surveillance is certainly an important part of that, but there are other strategies that we adopt in order to maintain that overall compliance environment that we are aiming for.

I note the views of those bodies. They obviously have a special interest in the matter, an interest that bears consideration by us, and we will continue to take their views into account.

Senator CONROY—He states, 'We believe that there is strong deterrent effect in a regular program of checks.' I am not quite sure whether you are saying that you have abandoned the program of checks or that it is just under review for abandonment. Can you clarify that?

Mr Longo—I have not said anything about abandoning a program of checks. I have tried to answer your question comprehensively. There are other things we do. We prosecute people for not keeping books and accounts of companies. We routinely do that. There is a real menu of strategies.

Senator CONROY—Do those prosecutions come from what Mr Pound characterised as your being active in the market? I would probably describe that as being proactive, with the ASC going out and looking rather than only acting after you have received a complaint.

Mr Longo—It is an active part of our small business program. A lot of the insolvent trading issues directly arise from people not keeping proper accounts. Again, what I am trying to promote is an understanding of enforcement of accounting standards in a broad way. Our duty is across the market, not just at the big end of town. That is another feature of a big subject.

A focus is being placed—and I am not suggesting that it is an improper focus or a focus that does not warrant consideration and respect—that says that we should be doing a lot more surveillance in the big end of town. I am merely saying that we have done that. But it would be inappropriate for us to just maintain a constant mix of strategies. We need to be responsive to the market the whole time.

All I am saying is that at this stage we feel that we have attained a good standard of compliance with accounting standards. It is something that we have under constant review, and what works this year may not work next year. We are always absorbing previous experience and listening to the views of people like that.

Senator CONROY—Obviously, a range of bodies is involved here that seems to think that the way you have been doing things has been successful, and they are concerned that you are changing to do things differently and they are worried that our international reputation—

Mr Longo—I think that is an understandable concern. They feel that we have been doing it this way for this long, it seemed to work, so why change it. I think it is that kind of concern I am hearing. I am saying that the issue we are talking about—surveillance—is one of a number of strategies. They all take resources of one kind or another. In the end, what we are trying to do is to foster an environment of compliance. That is the goal of the commission.

Senator CONROY—You say you have three or four different things currently. You are taking one of them away, so you can therefore only be relying on the other ones you have got—or is there something else that you—

Mr Longo—I do not think I said that we took surveillance away altogether. I think the concern was that we had a certain level of surveillance and now there is less surveillance. I think it would be wrong to say that there was no surveillance at all going on.

Senator CONROY—I am trying to understand the differing types of surveillance that you do. Mr Pound seems to think that you have what I would call a proactive position in going out and randomly looking at situations. Is it correct that you are no longer going to be proactive and going out?

Mr Longo—I think we are proactive all the time. I am not sure I can take the subject much further today. The surveillance is actually a complicated subject in the sense that, when I think of surveillance in accounting, I don't just think of the top 500 list of companies. Australia has over one million registered companies. It is true that there is a real public interest in maintaining high standards of compliance with accounting for listed companies—for obvious reasons—but the commission is also very mindful of the great community concern, for example, in the insolvent trading area, which also requires attention.

So when I think of accounting I am thinking of compliance across the market, the big end and the small end. All I am saying is that surveillance has taken us a long way at the top end. Maybe we might think that the time has come to redeploy some resources at the small end and make progress there. I understand the concerns that have been expressed about that. We

are mindful of them, and I would not for a moment wish the committee to think we are dismissive of those concerns. We have very good working relationships with those organisations and we will be continuing to listen to them.

Senator CONROY—Mr Grant is described as ‘ASC Executive Director Accounting Practice’. It also indicates in the article that he is winding up soon—in November. Are you replacing him—the position?

Mr Longo—To my knowledge, yes. We need someone in that position, discharging those kinds of functions. I should add that my description of those functions should not be taken as definitive. We have a new deputy chairman who has an excellent background in accounting as chairman of the Urgent Issues Group. So I think the commission will be taking the opportunity—indeed for many of the reasons we have touched on this morning as well as the fact that Mr Grant is now moving—to rethink perhaps just what that position should be doing. So I would not want to pre-empt what the commission decides about how it wants that position carried out.

Senator CONROY—How many people are employed in the ASC to initiate investigations as opposed to responding to complaints?

Mr Longo—I am not sure I could give you a specific figure, because the line is not drawn as clearly as perhaps your question might suggest it could be drawn. I can say that there is a program currently called the Complaints Assessment Unit—it is part of a program under a different name. Essentially, a team of people in each office take a wide variety of what are called complaints but are very often just requests for information or assistance. We call them ‘complaints assessment’ but very often they are public assistance people. They take phone calls and receive letters on a wide variety of subjects, some of which are dealt with on the spot. In fact, the best example of what I am trying to get at is Infoline, which has been in operation now for 18 months. Someone might be able to refresh me on the statistics, but it is something like 20,000 or 30,000 phone calls—

Mr Tanzer—Infoline was originally budgeted at about 50,000 calls a year and it is now about double that.

Mr Longo—So Infoline takes a lot of calls. The purpose of my response is to highlight that the calls are often a request for assistance or information. So that is the first point of contact and, if the matter that has been raised with us could warrant our resources being applied to conducting further inquiries or even an investigation, then that would be assessed in each office by a committee of senior executives who, having had the benefit of a briefing, if you like, from the persons who have done the initial review and assessment of the complaint, will decide whether the matter should be taken any further.

In terms of numbers, I am not sure whether Mr Mackinlay can help me—

Senator CONROY—I am happy to take that on notice, if you want, accepting the limitation that the line is not quite as black and white as I drew it.

Mr Tanzer—I could just add it is not really that we do not maintain records; it is split that way. Once a decision is made to resource an investigation, it is resourced—

Senator CONROY—It swells out.

Mr Tanzer—That’s right. And it does not really matter where the inquiry was commenced; it just commences—whether it is just because of, for example, just our own market intelligence or surveillance of the market or whether it is actually from a complaint made by a member of the public or by someone else.

Senator CONROY—This may fall into the same sort of category. How many people are currently employed in the ASC to proactively monitor compliance with the takeover code? Appreciating that the same black and white distinction might not be quite as applicable, would you please take it on notice.

Mr Longo—I am not sure it quite works that way. We certainly have daily interest in changes in control of listed companies. We get to know about these issues well in advance because, under our takeovers law, aspiring acquirers are often requiring relief from various provisions of the Corporations Law.

So it is a little bit like what I was saying earlier about section 313 where we have that power to give dispensation from compliance with accounting standards in very special circumstances. A very major part of our work in the takeovers area is working with acquirers who apply to us for relief from various provisions of the Corporations Law for the particular circumstances of their takeover.

If they do not do that, we actively take steps, which is why they always ask first. We routinely get taken to task about that. I say ‘routinely’ but it is not infrequent that we get taken to task—to the AAT, for example—about one decision or other we make in that area .

Senator CONROY—I note that in just the last few days there has been speculation about it becoming easier to take companies over—or there have been calls for it to be made easier. I am just interested in looking at how that worked over time.

Mr Longo—I have not had a chance to study those proposals in detail. I had a quick look at the public statement that has been made. My understanding was that it is intended that the reformed panel be—if I can put it that way—certainly in the first instance, the sole dispute resolver during a takeover. What I was just talking about is all that goes on before that.

So what tends to happen—this is not unusual—is that various applications will be made to the commission for relief from various provisions of the Corporations Law. When the results of those decisions are made known to the target, if you like, the target or other entities interested in the takeover might seek to review the decision of the commission to grant relief in one case or another. So all these issues get agitated in that way. I think part of the thinking behind the proposal—and I stress I have not read it in any detail—is that the panel would pick up that dispute resolution at that point, rather than allow, as seems to have happened from time to time now, these issues to get agitated in the AAT and the Federal Court and the whole process gets slowed down.

Senator CONROY—How many prosecutions—successful or otherwise—have there been over the last four years in relation to insider trading?

Mr Longo—There was Mr Williams last year. Mr Hannes is still facing trial, and various individuals resulting out of the Australian Coachlines in Queensland come to mind. So they are three charges.

Senator CONROY—The Coachlines was unsuccessful, wasn't it?

Mr Longo—It was.

Senator CONROY—How many of those ones have been successful? You have Mr Booth.

Mr Longo—What has been popularly referred to as the Booth matter ended up in charges against Mr Hannes. Mr Williams pleaded guilty and, in the Coachlines matter, as we have recalled, charges were laid and those proceedings ended with an acquittal for those affected by them.

Senator CONROY—In the past year, how many issues have been referred to the ASC by the ASX?

Mr Longo—I can tell you the answer to that, but I am not sure I want to get into too much detail in this particular forum. We get anywhere between 20 and 40 referrals a year from the ASX. We also have a high level of informal communication with the ASX.

Senator CONROY—I understand. Taking note of you not wanting to go into great detail on them—I appreciate that and I do not want to put you in a difficult position—have any of those gone to prosecution or are any on the verge of going to prosecution?

Mr Longo—Yes. Prosecution is one of a range of remedies available in dealing with market misconduct, but certainly the Hannes matter was the product of a referral from the ASX. You have posed the question in terms of criminal actions. I would have to say that it is relatively unusual for a referral to become a criminal prosecution.

Senator CONROY—Civil?

Mr Longo—That is the point I was about to make. We then have a range of civil remedies. Very often we take licensing action against the brokers involved in the misconduct that has been referred to us. We do take civil action as well from time to time.

Senator CONROY—The delay in the Yannon prosecution has drawn a lot of public comment. We have had discussion in another forum, which we will not repeat here because I do not want to waste the committee's time on it. There is a perception in the public, certainly amongst the financial commentators, that the delays particularly in Yannon are symptomatic of a problem. Would you like to make some general comments about that?

Mr Longo—I am happy to talk about the question of the concern that has been expressed in some quarters about delay in investigations at the ASC without my remarks being taken to necessarily be talking about any particular investigation. The commission is very conscious of the desire for investigations to be conducted quickly. Our record on this is actually a lot better than the commentators would give us credit for. We are one of the few regulators in the world, for example, that has a publicly stated performance standard of wishing to complete investigations within 12 months of commencement. I think in the last annual report we still have not reached our own self-imposed standard, which is 85 per cent. Last year it was 67 per cent in major corporate matters, if my memory serves me. I think it is higher for less difficult matters.

What I would want to stress is that there is a good culture at the ASC of wanting to conduct investigations more efficiently and more quickly and, to that end, we have introduced and continue to introduce new strategies, project management methodologies, technology and training and we are rethinking our approach to investigation technique—so all these things we try to do to improve our performance in this area.

However, at the end of the day, it is very important for the community to understand that, particularly in the criminal area, the rights and reputations of members of the community are at stake and we do not lightly prosecute people—it is only after the most comprehensive and thorough investigation, which does involve working closely with the DPP. The ASC does not prosecute people. I need to stress that. We do the investigation. The DPP then needs a reasonable time to make its own decision about whether to lay charges so that process, as I think it needs to be, has to be carefully considered.

Very often in the minds of the community, the time between the misconduct and the laying of the charges looks long, and that sometimes gets confused with how long it takes to complete

an investigation. Very often the investigation is completed within a reasonable time but it then takes time also for the prosecuting authority to make an assessment of the evidence and come to a considered conclusion about whether charges should be laid.

As I said, in general terms, our performance is that we complete some 70 to 80 per cent of the cases within 12 months. In the larger more difficult cases, I think it is not surprising that they do take longer, particularly document intensive exercises. We are very mindful of wanting to do it quickly and we continue to strive to do so.

Senator CONROY—What is the approach generally of the ASC towards initiating civil actions?

Mr Longo—Our policy is really part of our general approach to enforcement which is essentially to harness the full range of criminal and civil remedies that are available to us. I think the best example of what I am getting at is the Hannes matter. When those facts were brought to our attention we were in the Federal Court within 48 hours of being told by the ASX. Why were we in the Federal Court? To freeze the profits of the concerns we then had from the insider trading. We could not say who did it or whether there were any contraventions, but we were able to convince a judge that those profits should be frozen to give a reasonable time to investigate.

Six or seven months later we were able to convince the judge that there were facts that justified him distributing those profits to the vendors of the shares. So we got a civil remedy—that is, we returned the profits to those who were harmed by it. On the same facts, a criminal court, a jury, will decide whether there were criminal contraventions.

The point of me telling you all that is that we try to use all of our remedies when misconduct comes to our attention. The civil remedy is but one of a range. In board terms, civil remedies are most useful, for example, in preserving assets. We do a lot of asset preservation work which is a civil remedy.

Senator CONROY—How many civil actions have been initiated in recent years?

Mr Longo—While we are getting some figures on that, I will point out that in talking about civil actions there are actions where the commission in its own name or in the name of another entity seeks to recover damages. There are actions where we seek to have the appointment of a receiver or liquidator to the affairs of a company. They would all be considered as civil actions. There is also a lot of work we do in the licensing area where we ban brokers and other intermediaries. So far as directors go, last month we banned 30 directors in Victoria, for example, under section 600 of the Corporations Law. When talking about civil actions it is really actions that are not criminal, would be a better way of putting it.

Senator CONROY—I am interested in knowing whether or not the number of non-criminal actions has decreased in the last few years? You can take that on notice and let us know.

Mr Longo—That mix between civil and criminal remedies is a factor or issue that is constantly on our minds. I think in broad terms—and I do not think the figures will contradict me on this—the mix has remained fairly constant. The reason for that is that our fundamental philosophy has remained fairly constant—that is, if the evidence is there of serious commercial misconduct and the prosecution policy of the Commonwealth is met it is prosecuted. If there are opportunities for taking constructive, useful civil action—and I gave the Hannes matter as an example—if there is money that we can get our hands on or assets that we can preserve in aid of an investor's claim for reparation arising out of the misconduct then we will do that too. We see that as part of our role.

Senator CONROY—The thrust of my question is that I am concerned that with the cutbacks that you have faced with that you do not have the capacity to proceed into the courts as often. I am really just looking to see whether there is a corresponding reduction in your capacity to further matters in the courts in the light of those cutbacks. That is really the thrust of my question.

Mr Longo—There are fewer people to do this work. But, as I mentioned earlier, we have been very careful to absorb the changes in our funding in a way which minimised the impact on enforcement. I am not saying that there was not any impact.

Senator CONROY—I will come to actual numbers in a little while.

Mr Longo—That would be unrealistic, but we certainly have strived to absorb those funding cuts in a way which minimised the impact on enforcement.

Senator CONROY—On 5 August 1995, in article in the *Australian*, Terry McCrann stated—

Mr Longo—That was over two years ago.

Senator CONROY—I will read you the quote because it relates to two specific matters rather than just a general comment from two years ago. It states:

In essence, though, in the case of Composite, we are supposed to have this Takeover Code—which started life as a separate piece of legislation 15 or so years ago and is now incorporated, essentially unchanged, in the Corporations Law—which sets certain dos and don'ts.

The core do is that everyone in a target company should get the same treatment (with certain exceptions). In particular, if a bidder pays \$2.25 cash to some target shareholders, he has to offer the same to everyone else.

Queensland wholesaler QIW did exactly the opposite and has walked almost with the blessing of the ASC. Plus a few other things besides.

In the case of Crown, we have these wonderful new prospectus rules which are supposed to get companies raising money from the public to make the fullest and most meaningful disclosure. And accompanying rules, that they maintain that disclosure on listing.

Crown has failed to make adequate and timely disclosure almost continuously from day one. While the prospectus was open, it initiated action to dramatically change the structure of the project and did not inform investors. And at no stage has it renovated the almost immediately obsolete projections in the prospectus.

Is Terry McCrann correct in suggesting that Composite breached takeover code and that the ASC condoned this? I appreciate that this was two years ago and it may not have been you, but I am interested in whether any of you have any corporate recollections. Were you involved in that one?

Mr Longo—Mr McCrann is entitled to his view. The commission took certain decisions at the time and I think, if my memory serves me correctly, on counsel's advice. Very often in the takeovers area, because it is an area where there are lots of rules, the commission also has a duty to exercise the power to give dispensation from those rules from time to time in particular circumstances.

That requires the commission to take into account a wide variety of considerations. It does not quite come out from Mr McCrann's article that those considerations involve placing weight on what boards of companies think, the roles and rights of shareholders and the underlying Eggleston principles. Those judgments are reviewable. They are testable in the AAT. From time to time we are there with various parties attacking us for what we did not do or trying to support us for what we did do. So we are very mindful of the views of Mr McCrann. He

is an active commentator in this area. As I said earlier, we are good listeners. We are always interested to hear what Mr McCrann has to say.

Senator CONROY—Are you suggesting that dispensation was given in this particular case?

Mr Longo—I could not comment this morning on the merits of a particular case. I just happen to remember that one. I am almost certain we took counsel's advice at the time on the decisions we took, but I am certainly not in a position this morning to comment on the particular merits. I am really not sure it is appropriate in this environment to do that. Perhaps in another environment that is something we could take up.

Senator CONROY—I appreciate that. Is Mr McCrann correct in saying that Crown breached the prospectus rules and that the ASC condoned this as well?

Mr Longo—Senator, you know I cannot comment on that.

Senator CONROY—I raised a matter with you in another forum that I indicated I would raise with you to do with a Liberal MP. Is that one you would prefer to debate in another forum? You were going to take on notice a particular referral from Mr Dollis, I think I said at the time.

Mr Longo—I did take that up. Certain steps have been taken to deal with it in an appropriate way, given we cannot change the order of events as it happened, or are you referring to something else? I am sorry to be elliptical.

Senator CONROY—That is okay. There were two issues I raised. The first was the question of whether a fax was sent before a press release was put out. I understand that has been taken up.

Mr Longo—That has been taken up and clarified.

Senator CONROY—I appreciate that.

Mr Longo—I was concerned that that occurred.

Senator CONROY—I understand that that has been remedied. I was referring to a reference from Mr Dollis about trading with a company that was not registered, I think it was. I apologised. I was just about to run off and get my notes on it.

Mr Longo—Is that a deregistered company?

Senator CONROY—That is the one.

Mr Longo—I do have some material about that. I do not know whether we are talking about the same thing.

Senator CONROY—Yes, I apologise. I am just trying to remember the name. It was a Bruce Atkinson I think.

Mr Longo—At the end of the last month an application was made to the Supreme Court to reinstate that company. Orders were made for that to occur. Those orders were conditional in the sense that, in order for the reinstatement to go ahead, the proprietors of that company will have to comply with certain requirements that are in the order. They have until the end of this month, I think, to do that.

Senator CONROY—Are those orders public?

Mr Longo—I think so. It was an open court hearing. I see no reason at all why we could not give a copy of those orders.

Senator CONROY—I would appreciate that. Appreciating that I obviously have not read them, would they then retrospectively approve his trading back over the last years when it clearly has not been registered?

Mr Longo—Normally, as a matter of principle, reinstatement of a company is intended to put the company in the position it would have been in had it been registered at all times. For that reason, before a court will reinstate, it will want to be satisfied that the interests of creditors and others who may be prejudiced by the operation of that principle are first satisfied before any order is made for reinstatement. That is by way of general principle. My understanding is that I have no reason to believe that those principles were not observed in the reinstatement of this company. I should add that this is an area which—I do not know how many we do a year—is a very common court procedure.

Senator CONROY—If you can supply me with those court documents, that will be great. What investigations have you undertaken regarding Haoma gold share dealings? I understand you have had to look at them a couple of times.

Mr Longo—I am aware that there was speculation—perhaps a bit more than speculation—about the ASC's interest in trading in shares of Haoma. Can I assume, Senator, that your question relates to press reports some time ago now, a couple of years ago?

Senator CONROY—Yes.

Mr Longo—Arising out of an announcement that Haoma was about to enter into a joint venture agreement with Western Mining?

Senator CONROY—That is the one.

Mr Longo—I had a feeling that might be the case.

Senator CONROY—Very popular that one was.

Mr Longo—Before I try to answer your question, in this environment it is very difficult for me to comment on whether we have investigated something or where we are—

Senator CONROY—My understanding is that you issued a no further action.

Mr Longo—I am prepared to say that, at the time, there was speculation about ASC interest in that episode. There were some inquiries but we never made public whether there was an investigation and what its outcome was. I can certainly confirm for the committee that no action was taken against any person, civil or criminal, arising out of that share trading, not by us or, that I am aware of, by anybody else either. I would prefer to answer your question that way rather than to confirm or get into the details of what investigation or other was done. I am certainly happy to confirm that no action was taken by the ASC.

Senator CONROY—I am trying to operate within the constraints you have. There was a fairly unusual pattern of trading a few days before an announcement.

Mr Longo—Yes, that is right.

Senator CONROY—There was widespread speculation that people associated with the Carlton Football Club were purchasing shares just prior to a fairly significant announcement within the company.

Mr Longo—Yes.

Senator CONROY—It was to the surprise of a lot of people that you did not proceed, that you issued a no further action.

Mr Longo—Perhaps this is a question I can answer by reference to general principle and asking the committee not to draw any explicit inferences from this particular matter. It is not unusual from time to time for share trading to come to our attention, which warrants explanation.

Senator CONROY—Especially if the ASX had referred it to you.

Mr Longo—Yes. Very often this is in the public domain. If there is unusual trading shortly before an announcement it immediately raises the interest of the regulators—when I say that I include the ASX and us. That invariably attracts our attention. Indeed, the TNT matter is a good example of that. We keep talking about Mr Hannes but there are inquiries still continuing about other people who traded in TNT options just prior to the announcement of the takeover. Those options were worthless unless something was going to happen. There are many other examples over the years of unusual trading before announcements.

In order to get up an insider trading matter you have to establish two things: first, that the information is price sensitive within the meaning of the legislation, without getting legalistic about it today; and, secondly, the person who traded had possession of that information, that is to a criminal standard. We need to be satisfied of those two things at least. There are other elements of the offence but they are two crucial ones.

Our inquiries very often lead us into difficulties in establishing those elements. If evidence is not there then charges will not be laid against anyone. Essentially, this unusual trading before announcements does attract our attention. We do investigate it or conduct an appropriate inquiry. We work closely with the ASX to do that. In general terms, the reason for those matters not going anywhere relate to evidence, generally speaking. From time to time a matter will go to the DPP and the DPP might feel the prosecution policy is not met.

Senator CONROY—This one obviously did not go to the DPP because you issued a no further action.

Mr Longo—No, I did not say that we did that. I do feel I should correct that. I am happy to confirm for the committee that the ASC took no enforcement action arising out of that share trading. I would not want any inference drawn about whether or not there was an investigation or whether or not the matter went to the DPP or anything like that. I really do feel that that would be an area of detail which would be inappropriate for today, given the fact that other people's rights and interests would be affected if I did that in a way which would not be very appropriate. I am sure the committee would not want me to do that.

Senator CONROY—Can I put it to you that the investigation that you are neither confirming nor denying took place did uncover some fairly unusual patterns of behaviour and that in the end you decided not to prosecute Mr Elliott and others on the basis that he was gone for all money because he was currently before the NCA? Most people felt that it was a waste of public moneys for both the ASC to be prosecuting Mr Elliott at the same time as the NCA was prosecuting Mr Elliott.

Mr Longo—I cannot comment any further than I already have this morning other than by reference to general principle. We conduct investigations on their merits.

Senator CONROY—You would not be influenced in any way if another public organisation was involved in investigation of a different type. You would assure this committee that your organisation would not take into account whether or not another body was investigating and that would in no way influence you as to whether or not to continue or proceed with an investigation. That is probably a principle question.

Mr Longo—As a matter of principle, the decision whether or not to investigate a matter is taken on its merits. It is a judgment that is made by an ASC officer and, in some cases, it is a matter that may have explicit commission involvement in it as well. In general terms, it is a matter that is dealt with on its merits. Another way of putting that is to say that I would not rule out any particular consideration or always rule in a particular consideration. It is a matter that is based on its merits where we have to make a judgment about whether it is something we should investigate.

Once we started investigation—and I am still in the area of general principle—and the matter comes to the attention of the DPP, then the DPP also has to be satisfied that the matter should not go any further or, if he is satisfied that it should go further, it does—if the evidence warrants it and if the prosecution policy of the Commonwealth is complied with. I do not think I can take it any further.

Senator CONROY—In this particular instance can you give the committee an assurance that the fact that the NCA was at that point investigating Mr Elliott on other matters in no way influenced your decision.

Mr Longo—I cannot take the matter any further this morning for the sorts of reasons I was getting at earlier. The judgments that are made in a law enforcement context as to whether or not to investigate a matter and what steps to take thereafter—I am not ruling in or out any particular considerations. I think on the facts that you have raised it would be inappropriate for me to say anything at all.

Senator CONROY—I wanted to move away from the big end of town to the small end of town. I have some correspondence from a Mr Kevin Holmes. That might not immediately ring a bell. It is to do with an investigation into a company called Boss Components, alleging that there had been a theft of \$1.8 million and that because of limited resources the ASC has failed to investigate this case. Does that ring a bell with anybody at all?

Mr Longo—I am just trying to remember whether that is one that has passed over my desk. Could I be assisted by asking: has Mr Holmes written to the commission, perhaps at my level, saying that he is unhappy with the way in which he was dealt with at first instance and wants—

Senator CONROY—The letter I have got is not actually to you. I am happy for you to have a copy; it is not a secret document.

Mr Longo—From time to time I do get correspondence, or the commission does, seeking a review, if you like, of what a particular complaints assessments person did with a particular problem and I have a second look at it. I could not remember whether this was one of them or not.

Senator CONROY—He is essentially alleging that because of your budget cuts you have had to prioritise in essence—ironically, given our discussion—to the top end of town, and you have not had time or resources to chase what is a relatively small amount of dollars and shareholders, et cetera. He is very concerned about the constraints you are under. He is suggesting:

any criteria used to prioritise investigation of offences which is based on the size of the company and the number of shareholders must by necessity direct investigative resources away from small companies as they will never rate highly by these measures.

Would you like to make some general comments?

Mr Longo—Yes, I am happy to do that. I can assist the committee by recalling that that concern has been made year after year, well before any budget cuts. It is a misimpression that the commission over the years has strived to dispel: that is, that we make decisions based on how much money is involved and only on the big end of town. That is simply not true. We are very conscious of our role as a regulator across the market.

We have a small business program. I could not tell you off the top of my head what percentage of the enforcement budget it takes, but I can assure you that it does because I have to write the cheques. We are active in the small business area, so as a matter of general principle there is no requirement or bar that says if it is less than this amount of money we are not interested. It is all a question of judgment as to what we feel we can usefully do with the material that has been provided.

I do not know enough about Mr Holmes's complaint, but I can tell you that they all get assessed. We weigh up the evidence. We take into account its age, our prospects of success, what we can actually do with the material that we have been provided with, and then decisions are made, based on that, as to what can be done. In the small business area we have a wide range of strategies designed to assist creditors and small business generally.

Senator CONROY—As it may not have come across your desk, I have got a few facts that I will run through for you.

Mr Longo—What sometimes happens in these circumstances is that these issues are brought to the commission's attention and we are given an opportunity to write to the—

Senator CONROY—I understand that it has actually been brought to the commission's attention.

Mr Longo—Has a commission member, or I, or a regional commissioner signed any letter?

Senator CONROY—That I am not sure of. He indicates that: 'On learning of the scheme a complaint was made to the ASC.' He has not attached any correspondence backwards and forwards.

Mr Longo—We are very conscious of people being disappointed with us saying we cannot take any action. We are very mindful of the need for people to understand why we did not do something. We have an interest in them understanding because it promotes confidence in us, so we really are very open to trying to deal with that, if we can.

Senator CONROY—He goes on to say:

The assessment was that the scheme appeared to be improper and in breach of sections of the Corporations Law. However the ASC had to prioritise investigations. On their criteria this matter was not considered to be at the more serious end of the scale and would not be investigated.

He goes on to say that a complaint has been made to the Victorian police major fraud squad and suggests that corporate fraud does not get much of an investigation in Victoria. I would have to agree with him, but we will not dwell on that. Just briefly, he states:

The company, Boss Components Ltd, began receiving a generous Government subsidy.

Mr Longo—I am sorry, Senator, you are going a little quickly for me to understand what you are saying.

Senator CONROY—Sorry, I will just run through a few of the facts of the case for your general information. You might then want to be able to—

Mr Longo—Oh, I see, with a view to taking it on board.

Senator CONROY—Yes, just having a further look perhaps. He continues:

The subsidy delivered payments to the company in excess of \$1,000,000. Instead of informing shareholders and outside directors of the subsidy, the managers of the day

- . Transferred the key asset to themselves for false consideration. (Assets later sold for \$1,500,000)
- . Improperly dismissed the independent Auditor and appointed their own past director as auditor to reconstruct accounts, prepare and lodge false documents and audits, all to give effect to the illegal and improper transfer of the assets
- . Retained sales tax collected from customers, instead of paying the same to the Australian Tax Office.

An estimate of the loss experienced by various parties is:

- . Australian Taxation Office \$ 100,000
- . Lenders—Rural Finance Corporation \$ 200,000
- . Creditors \$ 40,000
- . Shareholders \$1,500,000

Grand total: \$1.8 million. He is obviously an aggrieved shareholder. But an example of what probably concerned him and me the most was the following:

one of the architects of the scheme in Boss has now moved to another company listed on the main board of the Australian Stock Exchange, and the potential for more elaborate schemes exists.

ironically, this new company of the individual who is involved in Boss—

promotes security encryption devices for improved security, and counts the Australian Taxation Office and the Prime Minister's Office among their clients.

He has raised an ongoing issue: because this guy was not chased, he has now moved on. If I can refer that one across to you.

Mr Longo—Yes, if that material could be sent. My office would be the logical place.

Senator CONROY—I was just going through those figures that you sent through to me—thank you very much—from 1993 through to 1997. What it seemed to show is that there seems to have been about a 25 per cent cut in the enforcement division overall, that lawyers, operational staff and senior operational staff have lost about 216 positions, which is about a quarter of their staff over the last five years, and the senior executives have actually increased at the same time. You would not say that on the enforcement side, in terms of corporate fraud and regulation and those sorts of things, that the amount of corporate behaviour that would draw the attention of the enforcement division has dropped by 25 per cent in the last five years?

Mr Longo—I should begin by saying that figures bear a wide variety of interpretation.

Senator CONROY—It is just simple maths.

Mr Longo—Can I start with a couple of propositions. The first is that when the commission first started life, it had on its books a wide range of very large matters. The percentage of its resources that were devoted to that was always going to be aberrational because once those large matters were dealt with—and the last one was dealt with only in the last financial year, that is, the Bond matter—the impact on the numbers, as you have put it, needs to reflect that phenomenon; that there were those large matters in the early years. The budget cuts came along and, as I said earlier, we have tried to absorb those in a way which minimises the impact on our enforcement capacity.

I know those figures were provided to you, and I am not suggesting they are wrong, but in terms of enforcement they are figures that are designed to tell you by reference to position numbers and all that sort of thing. As my colleague Mr Tanzer was saying earlier, a lot of the people actually do enforcement work, even though their positions and how they might be

characterised in a chart like this might lead a casual reader to an impression that they are not doing enforcement work. I am not sure I can take it much further this morning. The budget cuts do have an impact on enforcement at the Australian Securities Commission. We have tried to minimise that impact.

Senator CONROY—It seems that, given that the budget has not been cut by 25 per cent of the ASC, disproportionately enforcement seems to be suffering.

Mr Longo—I do not think that is right.

Mr Tanzer—If you have a look at the information division numbers, for example, they have dropped by a similar amount. That has been due to implementation of technology which has improved the capacity for the division to use electronic or other means to perform its services. I think part of the explanation is that within that category of numbers that are headed enforcement are included also the people who support enforcement people in regional offices. As the annual report states—this particular table does not show it—we have been successful in reducing the number of support staff to operational staff from 14 per cent to 10 per cent. That suggests that a large amount of the reductions that have been suffered across the commission have actually been in those support areas where we have been able to rationalise the number of support staff by a number of mechanisms such as consolidating the payroll functions.

Senator CONROY—Reading off the classifications in these figures there are ‘lawyers, operational staff (ASOs) and senior operational staff’. Is that where you would be defining those support staff?

Mr Tanzer—Yes. I was not responsible for putting the chart together. When I look at that chart, I would assume that some of the support staff would be in the operational staff ASO category. Certainly the annual report, which has been published, notes that a particular focus we had was to target many of these staff reductions in that support area by using strategies of consolidating particular support functions such as payroll and accounts processing, and so on, in one area, rather than having that spread around the commission, therefore reducing staff that way.

Mr Mackinlay—Corporate support numbers have dropped something like 42 per cent. The figures are artificially constructed. To respond to your question—we do not normally characterise them this way—if you looked at the figure of senior executives today, 10 out of 44 have gone.

Senator CONROY—Mr Fahey, the Minister for Finance and Administration, has been having a few problems with his reporting. I understand he was fined \$125, which is a fairly small fine. Is that a regular sized fine?

Mr Tanzer—I am not aware of the particular action. I assume by the size of the fine that it comes from the program—

Senator CONROY—Failure to lodge an annual return for 1990.

Mr Tanzer—Yes, that is what I was going to assume. Normally what happens where there has been a failure to lodge an annual return is that a reminder letter is sent and then a penalty notice is sent. Following that, if there is no response, then the matter might proceed to prosecution. The amount of fine that comes out of prosecution at the end of the day can vary from nothing up to the maximum, I think, of \$500. I suspect the \$125 to which you refer might be a reference to a penalty notice rather than a fine imposed by a court, but I am not commenting on the particular case because I am not aware of it.

Senator CONROY—It is Lockreagh Investments, which has been kicked around a few times. Mr Longo appears to have some knowledge of it.

Mr Longo—I would not want my smile to be taken as having any knowledge whatsoever of this matter.

Senator Kemp—Senator, you are being a little bit provocative.

Senator CONROY—It indicates that Mr Fahey's company was fined for failure to lodge an annual return in 1990. It is also understood that he failed to lodge six years in a row. We are wondering whether the \$125 is only for 1990 or whether there are still investigations into the other five years where the company did not lodge a return.

Mr Tanzer—Just speaking from my general knowledge of the program, it may well be that the years that they are referring to are prior to the ASC coming into existence—

Senator CONROY—I suspect that could be the case. It is 1986 to 1991, so—

Mr Tanzer—My understanding of the way the program works is that we are operating on current years rather than worrying too much about what has gone before. With most of the companies, if they have failed to lodge for, say, two years deregulation action will proceed and they are removed, therefore, from the database. Our main interest in this area is to make sure that the database remains accurate.

Senator CONROY—So the fine was only collected in December last year, and Mr Fahey applied to reinstate the company?

Mr Tanzer—Again I am speculating, but I would assume that what happened was that the company was deregistered because of the failure to lodge for some reason. It was necessary to reinstate the company and to do that it was necessary for Mr Fahey or whoever was involved in the company to pay all outstanding fees.

Senator CONROY—I understand. As you are indicating, it goes back before the ASC was constructed. Does that mean that you would not have sought to chase up the fines for when you were, say, the NCSC?

Mr Tanzer—This is going back a little in the history, and so on. I am testing my memory on this because it was actually before I joined the ASC. My understanding is that where matters were on foot the ASC continued those matters whether they were NCSC matters or state Corporate Affairs Commission matters. Mr Longo has already referred to a number of investigations of matters that took place after that time. This sort of area where there has been failure to lodge annual returns is an area where the ASC made a particular effort, once it commenced, because of the efforts it was making within the information division to improve the service there to really improve the quality of the database, and so on.

Again, I cannot be categorical on this, but I am not aware that the NCSC or the state corporate affairs commissions had a number of those matters running at the time. I think it would have been unlikely that our program, when it commenced at that time, would have looked back at previous years because it is primarily a matter of cleaning up the database.

Senator CONROY—Do you think it is appropriate for a state minister, as he was at the time, to ignore official requests to lodge an annual return?

Mr Tanzer—It is not a matter I can really comment on.

Senator CONROY—Thanks.

CHAIR—As there are no further questions on the ASC, I thank the officials for attending today. We will move on to program 1.

[10.47 a.m.]

Program 1—Treasury

CHAIR—Welcome. I understand there will be some general questions before we move on to program 1.1.

Senator Kemp—Mr Chairman, perhaps before we commence questions, Senator Cook, I believe, posed some questions that he wanted an early response to. I have a response for Senator Cook.

CHAIR—Yes. I should explain, Senator Cook, the minister was going to give these explanations at the commencement of the hearing and I said it would be best to wait until you were here. Perhaps we will have those now.

Senator Kemp—I have sought the advice of the Treasurer, and the Treasurer advises me as follows. The government recognises that the release of the Industry Commission's final report on state, territory and local government assistance to industry is overdue. The report raises some substantive issues which involve all levels of government. The government is still considering these issues and will release the final report when its consideration is complete.

Senator COOK—Can I say, first of all, I apologise to the committee for my behaviour the other night. Senator Kemp, that still does not answer the question of when the government might come to terms with its obligation under the act and actually release the report. I appreciate that the government may still be in the process, as you have informed the committee, of consulting with other branches of government in order to frame its response, and I appreciate as well that it is desirable to have both the report and the response to hand at the same time. But, in these circumstances, which I think you would agree are unusual—it is now over a year since the report was lodged with the government—will the government consider releasing the report immediately?

Senator Kemp—I will bring your request to the attention of the Treasurer.

Senator COOK—Thank you. Can you provide the committee with an answer?

Senator Kemp—I have provided an answer. I will see whether the Treasurer wishes to add to that answer in the light of your comments.

Senator COOK—This is unsatisfactory. The answer 'I will see whether the Treasurer will reply' is not an answer to the question of whether the committee will receive a reply. I would be grateful if the minister would indicate that we will receive a reply one way or the other.

Senator Kemp—Of course you will receive a reply. I am saying that I am not sure that the Treasurer will wish to add any further comments to the earlier answer that I gave the committee. Senator, you will receive a reply.

Senator COOK—Thank you indeed. I have a question to Senator Kemp. I have before me a press release from the Treasurer of 26 March 1996 which sets out the duties of the Assistant Treasurer and, in the same release, and as a matter of information, the Parliamentary Secretary to the Treasurer. Has there been a similar release describing Senator Kemp's duties as Assistant Treasurer?

Senator Kemp—I am not aware that a press release was made on that. I do not know whether anyone here can add to it.

Senator COOK—Do we assume, therefore, that the duties as outlined for Senator Short are exactly the same in every respect as the duties that you now perform as Assistant Treasurer?

Senator Kemp—There is no doubt that they are substantially the same. I will have to just check that the agreements with the Treasurer—I do not have the press release before me—are the same in every respect.

Senator COOK—Was there some reason why there has not been a press release about your responsibilities?

Senator Kemp—No. I would not read any comment into that. This is the first time that this issue has been raised. I have been the Assistant Treasurer since October last year. No-one has raised that question before. It obviously was not of concern before. If it is of concern now, we will see what I can provide you with.

Senator COOK—I thought that as a matter of tidy housekeeping the parliament should know exactly what your duties are.

Senator Kemp—As I said, there is no secret. We are not hiding anything. It was not of concern to anybody. I have been in this job for well over 12 months. We are happy to provide you with the information that you are seeking. No-one is trying to hide anything.

Senator COOK—Thank you very much. I look forward to receiving it. They are all the general questions I have.

Subprogram 1.1—Domestic economy

Senator COOK—I have a few questions concerning the outlook for housing and non-dwelling construction. It is my understanding that trend building approvals have been relatively flat since April this year and that, in seasonally adjusted terms, approvals are actually lower than they were about six months ago. I also have advice that in the Bankers Trust research note on 10 November this year, Dr Chris Caton, who is incidentally also the chairman of the Indicative Planning Council for the housing industry, said that the housing industry recovery ‘certainly is not robust’. Is that an assessment that Treasury agrees with?

Mr Callaghan—We would characterise the recovery in the housing sector as remaining steady. You said that it has been flat in trend terms. For total building approvals for both private and public building in the year to September, the increase was 11.8 per cent. There has been some volatility from month to month, but the nature of the recovery is steady. In the forecasts released in the budget, it was portrayed as we were expecting. There was a steady rise in the dwelling sector. It was not a robust recovery, as we have seen in some of the other cycles, because there was not the same pent-up demand. So there has been a steady recovery, but not of the same cycles previously.

Going back a few months, there was some evidence that things were rising somewhat stronger. Some people started to think that this cycle may prove to be stronger than a lot of people, including Dr Caton in his capacity as the chair of the committee, were expecting. We would now say that it is still on track with what we thought in the budget, which is a steady recovery.

Senator COOK—Can I be clear on this point. Are you saying that the housing recovery will meet your budget time expectations?

Mr Callaghan—At this stage, we have no revised forecasts put out. These are matters that we are looking at in the context of the government releasing the mid-year economic and fiscal outlook. What is occurring in the dwelling sector is broadly on track with the expectations at budget time.

Senator COOK—Is that what you think Dr Caton was saying when he said that it certainly is not robust? I have heard you make what is a quite reasonable differentiation between steady

and robust, but I do not want to play with terms. Are you saying that, in essence, there is an agreement about the nature of the recovery and that Treasury more or less has the same view as Dr Caton? Are you saying that your view is a bit different and that I should pay attention to the way in which you have expressed it?

Mr Callaghan—I really do not know. I could not interpret exactly what Dr Caton said about it being robust. It is generally accepted that the housing recovery would not be as robust as previous recoveries, when there has been a lot of pent-up demand. A previous cycle may have been cut short by strong rises in interest rates and there was thus a lot of pent-up demand.

This time round most people were expecting that we would not see the same rebound. The way things have panned out, as they describe them, is very similar to the assessment that a lot of people were making at the time. Since then we have seen housing affordability fall to very low levels, and that should provide some stimulus. A number of people have commented that there were early calls that perhaps the housing cycle was not picking up in line with what people thought, but with the way things have panned out people are saying there is certainly life in it and it is moving up in line with what most people were expecting.

Senator COOK—In the light of recent business expectation figures in the ABS CAPEX survey, what do you have to say about the outlook for non-dwelling construction investment?

Mr Callaghan—There were downward revisions to the non-dwelling construction in the latest CAPEX survey. The one thing I would say is that they are certainly at odds with other indicators of non-dwelling investment. Those indicators are the value of work yet to be done. The engineering construction, which is an important component of that, is very high. The value of non-residential building approvals is also high. Many of the recent business surveys were reporting solid growth in private investment. So there is a dilemma in some respects between those downward revisions in the CAPEX survey and the other indicators.

Senator COOK—Is there some statistical explanation in the way in which the figures are collected as to why this might be the case or is this just a question of judgment?

Mr Callaghan—The Australian Bureau of Statistics is the one obviously which could be expanding upon that. It is the information that we have to work on. It is very helpful in trying to make these assessments of the outlook for the industry. It is a survey, and it is very difficult to get a good picture of what is happening in it.

All those factors are ones we have to take into account when we are interpreting these movements. We see it in quite a range of the statistics that come along. That is a factor that we have to take into account but, again, the ABS is the one that is better placed to be able to tell you about the methods it has compiled for the statistics and whether there is any statistical aspects of that which may account for this.

Senator COOK—So we would be right in looking at the ABS as being the more authoritative of these surveys?

Mr Callaghan—The ABS compiles the statistics and puts together the information. We, like private sector forecasters and others, use it and have to interpret it. We use it in our assessments of where we think the economy is going, but the ABS is the one responsible for compiling the survey.

Senator COOK—I am just trying to get an idea of the authority one should place on each of the surveys. I think you are saying that the ABS is the one that Treasury has regard to. It is always a question of how you interpret those, of course, and interpretation is subjective. But, in terms of the collection of data to represent the figures in that survey, the ABS is the

one that Treasury would have regard to pre-eminently. Is that a correct interpretation of what you are saying?

Mr Callaghan—Again, they compile the information so they are the ones who know the details of it. In any of these assessments, it is a very difficult job of trying to work out where we think things are occurring. It is a diverse economy and the ABS always is confronted with the problem of trying to get a good handle on what is happening.

Through a process of techniques, it compiles the statistics. We, like everyone else, have to look at them, and this is a classic illustration of where you get some conflicting signals coming from different statistics that are produced by the same body and others by the business surveys. You have to put them all together and come up with an assessment of what you think is happening.

Senator COOK—Can you confirm that the CAPEX survey, as published late in August, is about 4.1 per cent lower than the same set of expectations published in the previous year?

Mr Callaghan—I would have to look that up, Senator, if that is the exact one. Are you talking about the non-dwelling construction?

Senator COOK—Yes.

Mr Callaghan—I am not sure, Senator, if I have that information here, but we can take it on notice for you.

Senator COOK—My calculation is that it is 4.1. I do not need you to go back and do a review, but I would not mind that being confirmed by you.

Mr Callaghan—We will certainly check on it, but there was a downward revision most definitely in the non-dwelling constructions and, again, quite a strong upward revision in the expectation survey for equipment investment.

Senator COOK—In terms of non-dwelling construction, would you say that that is proving to be less robust than expected at budget time, given that it is 4.1 per cent—or that figure to be verified by you—below a year ago?

Mr Callaghan—I think that we would say that we have that latest CAPEX survey, but we have to do exactly what we have been discussing—that is, what interpretation do we put on that? In looking at that, we have to look at the other indicators too which would seem to be consistent with a strong pick-up in the non-dwelling construction. At this stage, those other indicators are consistent with the expectations. We have this latest CAPEX survey. How that all pans out is certainly something we have to look at. On the whole, we think that the indicators there are broadly in line again with that assessment at budget time.

Senator COOK—Am I right in understanding that you are saying that non-dwelling construction is not less robust than was expected at budget time, that you think it is on track? Is that what you are saying?

Mr Callaghan—I am saying that the latest CAPEX survey has introduced a new degree of uncertainty around assessments of the non-dwelling construction sector.

Senator COOK—The latest CAPEX survey?

Mr Callaghan—The CAPEX surveys that you referred to have a significant downward revision which is at odds. That element has introduced a degree of uncertainty in interpreting that outlook for non-dwelling construction. Again, those other indicators are all quite strong. It is the dilemma between these two different indicators that we have to assess.

Senator COOK—I understand that. I am just asking for your view, though. Do you think we are on track for the budget or not?

Mr Callaghan—I think we are on track, yes.

Senator COOK—I will turn to some questions about the labour market. In the light of the most recent data, can it be said that the labour market has performed as was expected at budget time?

Mr Callaghan—I did not quite get that.

Senator COOK—In view of the latest data, has the labour market performed as you expected it would perform at budget time?

Mr Callaghan—For 1997-98, yes.

Senator COOK—That takes account of the latest figures that we have seen.

Mr Callaghan—Yes, Senator.

Senator COOK—We have seen a fall in the participation rate, for example. I think the participation rate is now at 63 per cent and the budget forecast was, as I recall, 63¾ per cent. The figure of 63 per cent is not consistent. Does that cause you to want to qualify what you have said? It is out of line with what the budget forecasts on the participation rate would be, isn't it?

Mr Callaghan—In terms of saying whether anything is consistent with the budget forecast, to go down to the precision—if there is any particular component that might be slightly out one way or the other compared with the year average or through the year numbers that are presented at budget—we would make no claims at all in terms of the forecasts that they could pretend to be providing this point accuracy precision as it goes along. They are trying to present a trend of the outlook and the developments as we think they will be occurring.

Within the labour market, the forecasts at budget time expected that there would be a growth pick-up in jobs through the course of 1997-98. I think it averages at about 57,000 job growth in these first few months of the financial year. That is broadly in line with that outlook for the labour market presented in the budget. There is an expectation that there would be some pick-up in the participation rate over the course of the year as jobs growth rises, and I think that we will see that, Senator. I think that outlook is broadly consistent with the budget forecast.

Senator COOK—So you are saying that you think the participation rate will pick-up and hit the 63¾ per cent?

Mr Callaghan—Again, some of them are year averages and some of them are end of the quarter figures that we quoted. I think that yes, we will be seeing some rise in the participation rate as the labour market strengthens. I think we are seeing signs. From month to month the one thing we do know is the great volatility in the labour market numbers. We have seen very strong movements from one month to the next in both jobs and the participation rate. It is impossible to make conclusions on just one month's figures. We, along with everyone else, are looking for those underlying trends and where they might be going. So in that context we come back and say that we think it is broadly consistent.

Senator COOK—Therefore, you are saying that 63¾ per cent will be realised. Your expectation is that it will be realised.

Mr Callaghan—At this stage, the government will be putting out the mid-year economic and fiscal outlook. We will be looking at all of these developments that have occurred and

making a reassessment, which will come out in that. I will just say in that broad context that the forecasts covering all of the labour market presented in the budget are still broadly in line with the developments that are unfolding for 1997-98.

Senator COOK—What do you say about the labour market in 1996-97? Was it as strong as you expected at budget time?

Mr Callaghan—No, it certainly was not. That is one of the reasons that I have been specific in saying 1997-98. Certainly jobs growth in the second half of 1996-97 was a lot weaker than we were anticipating.

Senator COOK—Can you tell me if it is true that a rise in the participation rate from the current level of 63 per cent to the forecast 63¾ per cent would mean an increase in the size of the labour force of about 100,000? Is that what we are talking about?

Mr Callaghan—I will take your word on it, Senator. I have not calculated it. I will take your word on it, if that is what you have estimated.

Senator COOK—You are very trusting, Mr Callaghan, but with due cause. If the figure is around 100,000, does it follow that any further reduction in the unemployment rate in the months ahead is likely to be rather slow?

Mr Callaghan—The budget forecast was for a modest reduction in the unemployment rate. I think the total number of jobs in the budget that was forecast was about 190,000. That would be in line with what those budget forecasts were. What happens in the unemployment rate depends on what happens in the growth in the labour force. The growth in the labour force is going to be a little bit below that. Obviously we are going to make some inroads in reducing unemployment. The budget forecast was for a modest reduction in the unemployment rate. So I would just say that what you are saying is probably consistent with that.

Senator COOK—So would you agree with these remarks of the Governor of the Reserve Bank? He appeared in this building just last week. In relation to unemployment, he said: Some further progress can be made over the next year, although we will have to accept that it will probably be slow.

From what your previous answer suggested, you would endorse those remarks. Is that right?

Mr Callaghan—Again, what is slow what is not, Senator. I would characterise that in the budget. I think it was the unemployment rate coming down in the June quarter to eight per cent. We are now at 8.4 per cent, and coming down to eight per cent. Whether you characterise that as slow, modest or satisfying, they are all adjectives.

The thing is that, if the unemployment rate is falling, as the economy picks up jobs growth will be increasing. As you have just been discussing, more people are expected to come in looking for jobs in a stronger labour market. For that reason, to make very fast reductions in the unemployment rate is difficult as more people are encouraged to come into the labour market looking for it. How you characterise it is in some respects a subjective element, but the budget forecasts had the unemployment rate at about eight per cent and we are at about 8.4 per cent. We expect that the jobs growth will be sufficient to make inroads into that unemployment rate.

Senator COOK—The governor of the Reserve Bank characterised it as 'will probably be slow'. How would you characterise it directly?

Mr Callaghan—It is no more than my own opinion and, as I said, it is subjective, but I would say 'slow' may be a perfectly all right way of describing it, perhaps 'modest' or even 'encouraging' to see falls in the unemployment rate.

Senator COOK—It is always encouraging to see the unemployment rate fall. It is vastly more encouraging if we can see it fall more rapidly. I have got the flavour of your response. There is nothing you wish to add to it?

Mr Callaghan—No.

Senator COOK—Okay. What do you have to say about the performance of long-term unemployment? I think trend long-term unemployment is at about a 31-month high. Do you have any comment about what you expect the performance of the long-term unemployment rate to be? Will that continue to rise?

Mr Callaghan—The long-term unemployment rate generally moves in line with the unemployment rate. That has been the experience over the years so, as we bring the unemployment rate down, as the number of unemployed is being reduced, we would expect—going on historical relationships—to be making inroads into the number of long-term unemployed.

Senator COOK—I understand that today there are 252,100 long-term unemployed, which compares to around 206,300 people in April 1996. So that is a 17 per cent increase in the number of long-term unemployed, which suggest that that group of long-term unemployed is hardening and increasing. Is that a fair summation?

Mr Callaghan—Again, the way you have described it, there certainly have not been inroads into bringing it down, but if we look back, we have had a period of about 12 months where the unemployment rate has stayed roughly flat. Over that period, it is not inconsistent with what I described as that general expectation that, as you make sustainable inroads into reducing the unemployed, you should be making inroads into reducing the number of long-term unemployed. What you have described is consistent with the picture of a flatness in reducing unemployment, so we have not made inroads into that long-term unemployed rate.

Senator COOK—I wanted to talk to you about hidden unemployment, but I think I might have to do that next time we meet at estimates—which seems to be with mind-numbing frequency these days. The statistics that we need to have a discussion about hidden unemployment are expected out later in the year, so I cannot have that discussion with you now—

Senator CONROY—Can I just have a go?

Senator COOK—Of course.

Senator CONROY—We were talking about adjectives before. ‘Flat’ is an adjective as well. I would not have described a line on a graph at the moment that goes like that—up—as flat.

Mr Callaghan—I was talking about the unemployment rate.

Senator CONROY—But you were suggesting that the long-term unemployed rate was usually moving in the same way.

Mr Callaghan—We would see a very broad relationship there.

Senator CONROY—It has jumped—to use a different word—or it is rising faster than slow, if you want to mix your adjectives around.

Senator COOK—A lot faster than slow!

Senator CONROY—When Senator Vanstone was minister for employment, she suggested that part of the reason was the contractionary element of the budget. Would you agree with that?

Mr Callaghan—I am not quite sure that I have got the tenor of your question. You are saying that the contractionary element of the budget was responsible for—

Senator CONROY—Over the last 18 months. I am interested in whether you agree with Senator Vanstone's comments. While she was still minister for employment she was quoted as suggesting that unemployment was not coming down, was flat, as you have suggested, and part of that was to do with the contractionary move in the budget.

Mr Callaghan—The short answer is that it is impossible to say what the impact of a budget is on activity at any particular time. You never know what the counterfactual is. There was an extensive description in the 1996-97 budget papers of some of the impacts that fiscal consolidation might have on activity. One of the things that was indicated there is that we can see impacts on the financial markets. We may see declines in long-term interest rates. And we have seen those.

Senator CONROY—And you also predicted that unemployment would fall too in both those budgets.

Mr Callaghan—We never know what would have happened, is the answer to these things. We predicted that unemployment would slow. If we look back now, we can say that activity was weaker, and it was certainly weaker in the second half of 1996 than we predicted. Up until the end of 1996 what was occurring with employment growth was broadly in line then with the forecast for 1996-97, and employment lags activity.

What we have seen in the first half of 1997 is the lagged response to a slowing in activity in the second half of 1996. If we look at what are some of the reasons for that slowing in activity, private consumption was weaker than we were expecting it to be. The reasons for that are difficult to explain. Consumer confidence had not rebounded over that period, but private consumption was weaker.

We saw a detraction from growth from stocks. We saw net exports not performing as strongly—there was a slowdown in some of the export growth. These were the factors that were impacting on activity over that period. In terms of trying to say what the impact was of any of these, it always comes back to not knowing what would have happened in the absence of something occurring.

Senator CONROY—You revised your unemployment forecasts a number of times over the 12 months of that first budget, and you have continued to revise them. I think you started off saying it was going to be about three in terms of growth, and you revised your growth figure down on a number of occasions—in your mid-year statement and then again just before the final outcome was able to be measured.

Mr Callaghan—The only occasions that would come out would be—if we are talking about 1996-97—a forecast for 1996-97 in the 1996-97 budget. The mid-year economic and fiscal outlook was released, and then there is an anticipated outcome occurring in the 1997-98 budget.

Senator CONROY—The point I am making is that you revised down the forecasts for growth and therefore revised upwards slightly the forecast for unemployment in your mid-year statements. Then, I guess, at the end of that year when you could sit back and have a look at your figures, it did not even reach your revised forecasts—either your growth figure or your unemployment figure.

Mr Callaghan—So you are looking at what was the estimated outcome in the 1997-98 budget for 1996-97?

Senator CONROY—I would have thought you could have an actual figure.

Mr Callaghan—When the budget puts down in May, we have national account information only up to the December quarter, so essentially we are still forecasting six months of the year—

Senator CONROY—Okay. I've got you.

Mr Callaghan—We use the term 'estimate' to distinguish it from the budget year forecast.

Senator CONROY—So it is three estimates then—

Mr Callaghan—Three estimates come out.

Senator CONROY—Your original one on the day of the budget, your mid-year and then a further projection which you are saying you cannot quite do because all the numbers are not in yet—

Mr Callaghan—It is still forecast, because we are forecasting six months of the year.

Senator CONROY—and there is a further downward revision of growth and a slight upward revision in unemployment.

Mr Callaghan—In terms of growth for 1996-97, the budget forecast for GDP was 3½. The mid-year economic and fiscal outlook forecast was 3½. When we received the June quarter national accounts that gave us the first preliminary estimate for growth in 1996-97, and it was 2½. But the one thing we would caution against there is that it is very hard to draw conclusions as to the relative accuracy of the first preliminary estimate for a year that comes out. We have seen substantial revisions. There are many years we can go back to. We can look at 1994-95 and others where the June quarter national accounts came out and gave us an idea of what was growth for the year that had just been. When more information comes in, when the ABS gets more information on what is occurring in the economy, we see substantial revisions.

Senator CONROY—One per cent out is a fairly substantial—

Mr Callaghan—But I put that broad caveat there that it can be misleading to draw that conclusion. What you can say is that the preliminary estimate that was released for 1996-97, yes, compared with that forecast, was one per cent out.

Senator CONROY—Treasury, the premier forecaster.

Mr Callaghan—Let me finish, Senator. We may see substantial revisions as we go on. I could give an example of where, if someone had made that conclusion, they would have subsequently had to reverse the position. In the 1994-95 budget the forecast was 4½. When the first estimate came out in the June quarter, growth was estimated to be 4.8 per cent. In a subsequent quarter it was revised down to 4.1 per cent. It was then later revised up to 4.4 per cent. So we have gone from underestimating it significantly to overestimating it, to coming closer into it, as subsequent national accounts came out. So it is very difficult to be trying to draw conclusions on the basis of what the ABS says is a very preliminary estimate of the relative accuracy of a forecast against the outcome.

Senator CONROY—I am just interested in how we should treat your forecast at the moment.

Mr Callaghan—As I said in the discussion with Senator Cook, with the forecasts—again for the purposes of policy—we are trying to get an indication of where we think the economy is going. We quite often put caveats in producing them to say that you should not be focusing

on point estimates, because they are trying to assess what the broad trends in the economy are.

If we come back and find the same in looking at trying to get actual measures of what was actually occurring in the economy, if we start focusing on the point estimates, it can be misleading, because the information is volatile—when more information comes in we get substantial revisions. So we should be looking at these forecasts to try to get an indication of where we think the broad direction of activity is in the economy for the purposes of policy formation.

Senator CONROY—Would it be fair to say that those original forecasts were optimistic?

Mr Callaghan—They were higher than what we have seen in the preliminary outcome for 1996-97.

Senator CONROY—Sorry, I missed that.

Mr Callaghan—Yes, the forecasts were higher than the outcome from the preliminary estimate for 1996-97.

Senator CONROY—It would be fair to say that even though you are talking about the potential for revision you would not anticipate that they would be revised up by a point?

Mr Callaghan—There have been very large revisions—I think, getting close to that order of magnitude. But I do not think that is really relevant, Senator, in looking to whether it is going to be revised up to the point of getting very spot-on to those forecasts.

Senator CONROY—What is relevant is: if a target is identified that you need to have X per cent growth to lead to a reduction in your unemployment forecast, and clearly the growth target that the Treasury forecasts and the government supports and forecasts—and walks around the country saying, ‘This is what growth we are going to have’—falls substantially short and unemployment has not fallen as well, then there is a legitimate debate to be had about whether or not an optimistic forecast can maintain its credibility.

Mr Callaghan—I think the one thing you are focusing on is unemployment and you can look at that to say, ‘Where has unemployment been falling?’ In terms of the relationship of what is occurring with the level of activity in that unemployment rate, there are so many other things that come into the picture. We have discussed previously what is happening in the participation rate, the other elements that can be driving that and what can be the rate of increase of employment to a relative growth number, which means what is happening to productivity which can be influenced by the price of labour. There are so many other variables that come into it.

What you are looking at, again, is trying to pick up the broad direction and broad indicators that are occurring in the economy. I do not think there would be any disagreement that what is conducive to reducing the unemployment rate is achieving strong sustainable growth. I do not think there is any point where an estimate is given to any particular level of growth which is the target to try to achieve that reduction in the unemployment rate because I think there are all these other variables going on.

Senator CONROY—But in terms of a growth rate that would lead to even a small fall or a long sustainable fall, what would you think currently? In the past, there have been estimates that you need 2½ per cent growth. Currently, people argue it is three per cent or 3½ per cent and some are suggesting it could be as high as four per cent. Does Treasury have any optimistic or otherwise estimate on the level of growth needed?

Mr Callaghan—No, I can just give a personal view that I think it is misleading, for the reasons I have indicated, to try to get down to picking a particular level. What I would say is that strong sustainable economic growth and what has to be counted with that is what is happening in the price of labour that is consistent with strong employment growth and bringing unemployment down.

Senator CONROY—What is your definition of strong? You are using the adjective. What is the definition of strong? What is a broad—

Mr Callaghan—I would not put a figure on it. Again, I think it can be interpreted incorrectly.

Senator COOK—Would you like to make a comment on this point, which is relevant to what my colleague Senator Conroy is exploring here? The relationship between growth and job creation is deteriorating a little because a lot of growth is capital induced growth rather than growth that reflects employment opportunities. Therefore, the trend is that we will need higher levels of growth in order to reduce unemployment, not the slightly lower levels we might have done a decade or two ago.

Mr Callaghan—I think what you are saying is you are commenting on perhaps the price of labour and whether what is occurring there is labour pricing itself such that there is a tendency to go for capital as opposed to labour. It is a very long, very difficult and very complicated picture. I just come back to what I said before: strong sustainable growth is conducive to getting unemployment down. It is conducive to what is happening to strong employment growth. I do not think anyone would question that. But in terms of the other things going on—what is the price of labour and what is happening to real wages—these are relevant. We look back and we can see that, even in this cycle, the periods when real wages have been rising strongly have not been conducive with strong employment growth. When they have been moderated, we have seen stronger employment growth. That is the price of labour. What is happening to activity over this period is also a factor that influences it—what is happening in the cycle.

Senator COOK—I find it curious that you put so much emphasis on the price of labour.

Senator CONROY—Absolutely.

Senator COOK—Certainly, it is an element and I would not dismiss it for a moment, and perhaps later we might get into some questions about wages and the impact on the economy. The mining industry sector, for example, is an increasingly capital intensive sector and the number of people employed in it is consistently falling while that sector is expanding. If you look at the farm sector, the same is true—it is increasingly capital intensive. If you look at manufacturing, if you walk on to a factory floor in Australia today, it is virtually deserted. There is hardly anyone there compared with a decade ago. In Milan they have the first lights out factory for car manufacturing where no-one is employed. Robots do all the work. The services sector is the labour intensive sector in the main but, even there, taking various segments of the services sector, some of those sectors are quite capital intensive as well.

As those sectors are expanding, it seems to me there is this trend with technology and with investment that you cannot necessarily regard that the old links between economic growth and employment growth are consistent and remain the same. Indeed, there is over time a deterioration in the link in terms of growth being able to create jobs. You will need more growth to create more jobs in the future. Is that a fair proposition in your view?

Mr Callaghan—What I have been thinking when you have been describing that is another way you can express it—which is good, strong productivity growth, which is increasing the output for any given level of input of labour and capital, is certainly conducive to increasing the total output of the economy and the total standard of living of the economy. That is another way you can express what you have just said.

Yes, we do want to get a change. We do want to change the traditional relationship because we want to get a higher output for any given input of labour or capital. The result then is that the total economy can be more competitive. We can increase the overall output generally and we can have even stronger employment growth, but each of those inputs with the efficient operation of the economy can be producing much greater outputs.

So there should be an objective to try to change those relationships by lifting the productivity performance. We have seen a lift in the productivity performance, most definitely. It is hard to distinguish from the other trends that are occurring with just the cyclical influences on it. I think the evidence indicates that there has been a pick up in productivity and it should be an objective to try to improve that.

Senator COOK—But coming back to the link I was talking about, we are looking at a situation where we do get economic growth without employment growth, and this is at the bottom of the debate about whether or not there can be such a thing as zero unemployment anymore or what the natural level of unemployment in an economy will be. Because we are increasingly more capital intensive and productivity is more often determined by capital investment and the capacity of the technology rather than the people who serve the technology, we are in a situation where we will need higher levels of growth in order to create more jobs.

Mr Callaghan—An economy that is producing more goods and services, increasing the standard of living of its citizens and producing more jobs is an objective that we should be aiming for, Senator.

Senator COOK—Indeed, but that is not what I am asking. If you do not want to answer it we will move on. What I am asking is: is it a trend in modern developed countries for you to need higher levels of economic growth in order to lower the level of unemployment compared to a decade or two decades ago?

Mr Callaghan—I do not think it is a trend totally because if you look at the developments in United States, in terms of the rate of economic growth that occurred there, you have strong employment growth and you have seen the unemployment rate fall. You could not draw the conclusion that you have done if you compare growth in the United States and growth in Europe. The general way it is expressed is that both have occurred broadly at similar rates of growth, but in the United States it has been translated into much stronger growth.

Senator COOK—Whereas in Europe it tends not to be and in Japan—they have negative growth at the moment—there unemployment has edged up quite considerably over the period. They are a major manufacturing economy. I suppose that is where you would expect the signs to show out more clearly.

Senator CONROY—The point that I think Senator Cook is making is a continuation of a discussion I had with Dr Parkinson before he moved on. I was seeking to get an understanding of how you constructed your unemployment forecast. We were talking about the various sectors and how employment sensitive they were. I think the point Senator Cook is trying to make to you is that if four per cent growth was generated in the mining sector that would not lead necessarily to a substantial or even a moderate reduction in unemployment. If it was all focused in the services or retail sector it might lead to sustainable falls. What is

important for the committee to understand is the sensitivities to the different sectors. If the forecast is built around an increase in the farm sector or an increase in the mining sector, is there sufficient information for the committee to make a judgment about the forecast on unemployment or employment growth?

Mr Callaghan—The linkage between the economies is the thing that is most important. You can see strong growth occurring, for example, in the farm sector and that is raising income and that income is spent in other parts of the economy which is generated, including particularly, in the services sector. It is not possible to just be isolated in saying that you are going to receive all this growth.

Senator CONROY—I understand the multiplier effect and the flow down situation. I am probably looking at the primary bit of it. If there is growth in this area well there is a primary impact as opposed to the secondary impacts of the first year multiplier effects that we all get taught about. I accept the point you are making that you can have some secondary multiplier effect growth down the track from, say, a booming mining industry, and they are very hard to quantify. It is easy to quantify, potentially, the primary impact if a sector is expanding at a particular rate. I asked Dr Parkinson whether there had ever been any elasticities calculated for growth in individual sectors to assist you—that is, some calculations that have been done, any modelling that has been done to assist you in perhaps having a more accurate potential forecast?

Mr Callaghan—The most accurate forecasts we can get are looking at the economy as a whole and that relationship between it because of all interactions that are occurring. You need to look at what is happening in overall economic growth. For example, consumption is the major component and the largest component of that is retail trade within the services sector. That is one of those rather stable components that has some variation in there. It is very important in the employment sense. You have to look at what is occurring in the total economy—and we think that is the best way of doing it—to then translate what might be happening to employment.

Senator CONROY—I accept that absolutely. I am still trying to get the question of the linkage and where you forecast growth. The impression I got from Dr Parkinson last time was that you start off at the top and you work your way back down rather than starting at the bottom and working your way up to those figures. Either way probably has its structural flaws. I am trying to make sure I have a proper understanding of how you go about deriving the figures.

Mr Callaghan—As I said, we look at it at the macro level. You work with the information you have available. The nature of some of what you are talking about is very difficult. If you could do it of this break down at the sectoral level—to be able to forecast at that sectoral level—it would be easier. At the end of the day, most of it is done by—and perhaps this is the way you described it—looking at the top and what is trying to occur in the economy, the relationship between it and what is happening to the price of labour, which is very important in terms of what is happening in real wages and in activity, which then feeds into what you expect is occurring in employment and falling out from that.

That is a broad relationship occurring across the economy. It is easier for commentators when you see what is happening at any particular time and they can then make a very broad generalisation and say, 'Yes, it is what is occurring in one sector; it is not particularly employment intensive.' There are those inter-relationships occurring through the economy all

the time. That is why I think it is important to keep looking back at what is happening with the total picture.

Senator CONROY—The *Economist* publishes a survey, I think, weekly of economic assessments of GDP growth—and I appreciate that you do not want to tie yourself to a number as you described it before. In the last month or probably even six weeks, they have significantly revised down their average forecast from all the private sector commentators of the coming years growth. Do you think they are being overly pessimistic?

Mr Callaghan—Which one?

Senator CONROY—The *Economist* magazine. On the last few pages they have tables of figures on just about anything you want to name. In their GDP forecast they all revised down by at least half a point or towards a point GDP growth.

Mr Callaghan—For which country?

Senator CONROY—For Australia.

Mr Callaghan—I have not followed it that closely, Senator, to know that it has occurred month by month.

Senator CONROY—Do you think they are being overly pessimistic?

Mr Callaghan—I do not know what they have done to be able to make that judgment.

Senator COOK—I had been talking to you earlier about long-term unemployment. I think we had agreed that there had been a rise in long-term unemployment over the last 20 months of about 17 per cent—that is to say in April or May 1996, long-term unemployment was 216,300 compared with what it is today, 252,100, which is a 17 per cent rise. Mr Callaghan, I am worried that you may have downplayed the significance of those changes a little. Would you care to comment on the significance of a 17 per cent rise in long-term unemployment? How would you characterise that? In what terms would you explain that?

Mr Callaghan—I am not sure what you are getting at, Senator.

Senator COOK—I am asking you to describe what you see as the significance of a 17 per cent rise. How do you characterise the significance of that rise in long-term unemployment?

Mr Callaghan—Going back to what I said before, you are looking at it in a labour market over that period when the unemployment rate has stayed flat over that period. The jobs growth that has occurred has not been sufficient to make inroads into that. As I said, if you go back and look at that broad relationship—and this is not just the picking of any period to say that there is a direct movement from one to the other—if you see unemployment is rising, over the years we will see a rise in the long-term unemployment rate. The best way of reducing that long-term unemployment rate, if you look at that relationship, is to get the unemployment rate down. Again, I do not know what else you could say about characterising what has occurred in a rise in the long-term unemployment rate against the numbers you have quoted, which, I am afraid, I do not have with me.

Senator COOK—If you had a 17 per cent rise in consumption or investment, I think you would describe that as a major increase. Because we have a 17 per cent rise in long-term unemployment, I am just a bit concerned that your description of it may be too bland—in fact, a monumental understatement about the significance of that rise in long-term unemployment. What I am really asking you is: how do you characterise that? If you really did have a 17 per cent increase in consumption and investment, there would be quite glowing adjectives used to describe it. How would you describe a 17 per cent rise in long-term unemployment?

Mr Callaghan—In anything, when you are talking about these things—I think what you are driving at is trying to look for other things that might move other elements of the economy describing what might be rates of growth—you have to look at the volatilities of these areas in order to describe anything about them. That can sometimes be dangerous if you are just looking at a particular percentage increase to describe it. I really do not know what more I can say about what is driving that long-term unemployment rate to be able to characterise it. I do not know, Senator.

Senator COOK—Some of us are concerned that the real difficult nut to crack in the unemployment problem is the long-term unemployed. We are concerned about it from the point of view of whether Australia is developing an underclass or a group of socially disadvantaged people who are permanently locked out of employment. We are concerned about it from the point of view of what you do to get these people employment ready, get them back into the habit of job seeking or in the habit of working, and clothing them with the skills necessary to take their place in the labour market. There is a whole complex debate about how that might happen.

We in government had a view about that and acted on it. What I am saying is, essentially, since the change of government there has been a 17 per cent increase in this problem. I do not think it is a matter that can be easily set aside in the generalities of the broader issue. What I am asking you is: do you see this as a problem? Is this rather large increase a matter of concern to Treasury?

Mr Evans—Could I repeat what Mr Callaghan has been saying but perhaps come more directly to your question. The main reason that long-term unemployment has increased so much over the period you are referring to is simply the fact of what has happened to total unemployment. In other words, if, at the start of that period, we had predicted the total unemployment, we could also have predicted, reasonably accurately, the 17 per cent figure you are talking about, or was it 21 per cent?

Senator COOK—Seventeen.

Mr Evans—The relationship, as Mr Callaghan said, is by no means precise, but we know enough about it to know that we would have got that outcome. Equally, we know that if unemployment in total starts coming down that relationship will shift back the other way. We know that much. It is simply a matter of people: where you have the unemployment rate unchanged, or indeed drifting up a little, people will shift within that total category from being short term to long term. That says nothing about all the problems of the long-term unemployed to which you refer. I do not think there is the slightest difference between them to anyone who studies these issues.

There may be some differences about what could be done to deal with that beyond shifting the total unemployment, but even there I do not think there is a lot of difference. The solutions all go to matters of the relationship between the price that is being paid to the individual and their skills and, hence, from there to training issues and wage rate issues. Both of those elements have been common in every group of solutions that has been looked at in Australia and elsewhere to my knowledge.

Senator COOK—Thank you, Mr Evans, for that. Are you concerned about the 17 per cent hike?

Mr Evans—I am concerned about the total figure as much, because I know the 17 per cent will follow if the total figure stays where it is. The long-term unemployed will keep increasing

if the total figure does not come down. The first part of the solution is to shift the total figure down.

Senator COOK—Quite. My other question I have about employment is in terms of job creation—that is, the amount of full-time jobs that are occurring as opposed to part-time jobs. I think the trend is that we are increasingly a part-time employed nation. The figures I have are that compared to August last year there are now 14,500 fewer people employed in full-time employment. By contrast, the number of people employed part time since August last year has risen by 80,000. Are we seeing a trend here to an increasing intensity toward the part-time nature of employment rather than real full-time employment?

Mr Evans—I do not think we can talk about a trend from that short period. In general, I think the answer is yes. Again, it comes back to issues you were raising earlier with Mr Callaghan in terms of the relationship between growth and employment productivity, et cetera, and the changing structure of the economy. If you look at some figures over a longer term, they help make your point.

For example, just to take one set of figures, which goes to the point fairly directly, if you split the economy into goods and services and you take the goods producing areas—manufacturing, rural, mining—and go back over a period of the last 10 to 12 years you will find that the growth in employment in that combined goods sector has been close to zero. It has scarcely increased over more than a decade. If you look at services, the growth in employment has been 1.8 million people.

Within the services sector, for a variety of reasons, there is much more part-time employment. Some of those reasons go to the nature of service industries, that they are better supplied, but some of them go back to the issues that were mentioned a moment ago in respect of long-term unemployment. They go back to the question of labour costs and oncosts, the costs of full-time versus part-time employment in terms of oncosts that have probably exacerbated what is a fairly natural trend for our type of economy at this stage of development.

Looking ahead, frankly I see no reason to expect that longer term trend towards a higher proportion of part-time work to change. I suspect that will continue. That does not mean that we will not have growth in full-time jobs. I think that is why one has to extract the period which is a little abnormal where we have had no decline in unemployment in total. Once we are beyond that into the type of growth that is currently being forecast, we will see growth in full-time jobs again.

Senator COOK—Let's hope you are right. Some commentators have described the slowdown of the economy last year as a mid-cycle pause or as a lull. Does Treasury agree with that description?

Mr Evans—I think we may have used it ourselves.

Senator COOK—You have patent rights for the term.

Mr Evans—No.

Senator COOK—How does this most recent mid-cycle slowdown compare with previous cycles, particularly the last cycle in the 1980s?

Mr Evans—The pause on this occasion has not been as marked as it was in the mid-1980s. The slowing there was much more dramatic. This one may have been a little longer if you look at the labour market performance; namely, that unemployment has been stuck at the one level give or take a little for close to two years, but the output growth through that period has been stronger. This, again, goes back to a point you were raising earlier about that relationship.

Senator COOK—Am I right in understanding that what you are saying, Mr Evans, is that in terms of employment growth the mid-cycle slowdown we have just experienced was more severe than the mid-cycle slowdown in the 1980s?

Mr Evans—I will ask Mr Callaghan to check the numbers on that, but that is how I would characterise it, primarily because on the previous occasion the unemployment rate did not stay in the one spot for as long a period. Certainly the growth on that occasion fell more sharply.

Mr Callaghan—Yes, I think that is right.

Senator COOK—What is the reason for that? Why has it been more severe?

Mr Callaghan—In terms of being more severe when we are talking about the employment market?

Senator COOK—Yes.

Mr Callaghan—They are just judgments off the top of the head. The area I would be looking at in comparing the two is what has been happening to real wages over that period. Again, in the last pause of the last cycle we did not see real wages growing as strongly as I think we have seen on occasions in this cycle. That is an area I would be looking at. At this stage they are just broad judgments. We would have to analyse it a little closer to come to those conclusions.

If we look back that is why a lot depends on that. Those variations in real wages growth have been very important. Between mid-1991 and mid-1993 we have seen a period of small real wages gains until the second half of 1995. Then we saw real wages growth pick up considerably, particularly beginning in 1996. These variations in real wages then matched the variations in employment over this period.

In the mid-cycle pause, which was concentrated perhaps in the second half of 1996, we saw a period when the growth in activity eased and we saw a strong rise in real wages, not coming from a rise in nominal wages at that period but the fall in inflation with the result that real wages were quite strong. Those two relationships do drive what is happening to employment. With that lag we have seen the extension into 1997 of the flatness in the labour market.

Senator COOK—Essentially, are you saying that the strength of real wage increases is the prime cause?

Mr Callaghan—I am not saying it is the prime cause; I am saying looking at the relationships between the two. Some of it can be, if we go back, the strength of the recovery that happened last time in the pause and how strongly growth picked up. But also what was happening with real wages is also important.

Mr Evans—If I could add to that. Outward growth through the calendar year 1996 was much weaker than we—and most people—had been expecting. When we looked to the reasons for that there were a few, but the most important was the slowing growth in Asia. Japan had been weak for several years. It turned out to be weaker than most people expected during 1996. Although we got that one right, we did not pick the slowing in the rest of Asia and South-East Asia, which is best summed up in the export growth from the South-East Asian region. It dropped from 20 per cent, which was not abnormal for them, to close to zero through that period. The explanation of that goes a lot further, but that certainly affected our own growth in that calendar year. It was that combined with the real wage point that particularly affected our employment growth. All of that, incidentally, is spelled out in previous Treasury material.

Senator COOK—Thanks very much. On the question of economic growth for Australia, do you agree with the Reserve Bank Governor's assessment that the economy is growing at an annualised rate of about four per cent?

Mr Evans—I think that is a fair assessment if you had to pick a rounded figure. I think that is fair enough. That is the rate that is currently recorded for the first half of the year, putting the March and June quarters together. We will not have the third quarter for another few weeks, but on the partial indicators it looks to be continuing about that rate.

Senator COOK—So you would expect it to continue over 1997-98 at four per cent?

Mr Evans—That is not what our current forecast is. Our current forecast is a bit weaker than that. That is affected by the farm sector, incidentally. Four is not a bad characterisation of the non-farm sector. We will revise our forecasts when we see that third quarter figure and that will be published with the mid-year review.

Senator COOK—If I may say, Mr Evans, that is a somewhat guarded endorsement of four per cent for the next half. Is that how you mean to present your view?

Mr Evans—I certainly would be guarded about a forecast at the moment because it is difficult to be sure about the effect of what is happening in Asia on the Australian economy at the moment. The Treasurer has already spoken on that, reflecting our view in terms of a preliminary assessment. But it is no more than that and we will need to get a lot more information on what is happening there to be coming down to figures on that matter.

Senator COOK—I want to talk to you about the international economy. That is under 1.2 on the program. We are out of program by talking about it now, but I do not think we ought to let that straitjacket necessarily lose the point here. It is an appropriate question to ask in the context since it has now got into the discussion. What is your view of the impact of the downturn in Asia on the Australian economy? There are various figures around—from one end of the spectrum, as far as I can tell, about 0.25 per cent cut to our GDP growth through to about 0.5. At one end of the spectrum I have seen even 0.7. I think I have even seen a figure of 0.01. What can you say about that?

Mr Evans—We certainly will not put any figures on it because we do not believe there is enough information currently available to do that, but we can tell you how we think it will affect us. In terms of the avenues, Mr Callaghan might like to elaborate on that.

Mr Callaghan—Certainly. Senator. The other point we would make is that obviously we will never be able to know the impact of developments in Asia on our economy. That is important when you look at it, even as we have discussed this morning—the focus of our looking at the forecasts and at the revised forecasts that will come out in the mid-year review. We will be looking at all the influences on activity. We have to look at what is occurring in international developments as well as—even as you are discussing now—the strength of the economy as we have seen in 1996. Mr Evans said the partial indicators look very strong now. So all those have to be taken into account.

The things that we would be looking at include: how each of the major economies—our major export markets—are faring; the nature of the slowdown and whether it is going to be in the areas that are particularly important to Australia—that are importing from Australia; and whether it is concentrated in industries which input significant amounts from Australia. Also, the nature of the policy responses in those economies is going to be very important to make assessments about the extent to which there could be any impact, as is the extent of any exchange rate movements both in the countries and how it might affect their export prospects

and, in particular, as it relates to the Australian dollar. This will be very important in making those assessments of what we think might be occurring.

We also have to make assessments of what might be the extent to which Australian exporters find alternative markets. We also have to look at the timing of contracts. A lot is on fixed contracts, a lot is sold forward, a lot is hedged. To the extent that there is any impact, it is when it will be felt. With all the fixed contracts and hedging, will it be this year or will it be next year?

We are not just looking at Asia. As you know, Senator, we are a major commodity producer. A lot of our commodity exports depend on what is happening to world supply and demand. An important consideration then is what is happening in world industrial production and what is happening in economies with which we may not be direct traders. If they are picking up and growing strongly, they can be having an influence on world commodity prices, and that is most important. In this regard, we have to take into account what appears, that North American growth, for example, is a lot stronger than a lot of people expected and continuing and Europe is starting to pick up. That is a broad run through of the types of things that we would be taking into account as we come up to look at all these things in producing the mid-year economic review.

Senator COOK—You will give us a figure in the mid-term economic review, will you?

Mr Callaghan—There will be an update of all the various components of the economy of where we think they are occurring, what is happening in exports and investment. There will be, I would expect, some description of what was occurring in Asia and how it may be impacting. But as I said at the very start, our business is not trying to isolate what is the component of one particular factor; it is trying to look at all the developments that are occurring and how that is translating into what is the outlook for the economy.

A lot of people are making estimates of what might be the impact of developments in Asia. What is important is: what is the baseline and what are they taking it off? The other thing that has to be taken into account and the question you have to ask is: what else is happening in the economy, apart from just in Asia? That is our objective. Our focus is looking at it all to work out where we think the economy is going and the extent to which the forecasts are revised.

Senator COOK—I am aware there is an impressive array of various issues to consider. We got into this discussion because I was asking a question as to whether or not Treasury expects the four per cent growth to be sustained for 1997-98 as a whole. I do not want to misrepresent what the secretary said, but I understood him to be guarded about whether or not we would have four per cent growth for the second half of the year, the 1998 part of the year, and the issue he cited for that guarded comment was, for example, that we do not know what is going to be the impact of the East-Asian currency crisis on Australia.

I appreciate, Mr Callaghan, you have taken me on a wide-ranging journey across all of the issues that will go into looking at the growth forecasts and that it is hard to isolate impacts. I also make the observation, though, that people are doing this quite publicly, which is affecting business expectations one way or the other. I drop back from asking you directly what the impact would be of the Asian currency crisis on Australian growth to asking: in your mid-term review, will you make any commentary about this or will you try to guide expectations by giving Treasury's view of this in any way?

Mr Callaghan—Obviously, we will. It is a major development. Right now, if you had to say what is one of the uncertainties that is confronting any assessment of the outlook for the

Australian economy, as Mr Evans has said, it is developments in Asia. If we were updating an outlook for the economy, with the events that have occurred, of course that would have to figure.

In terms of giving some guide as to expectations, the important thing is where you think the growth is in the Australian economy and all the other developments that are occurring. That is the forecast that we will be including in the mid-year review. You refer to many people quite easily picking a figure, and my assessment is that a lot of it is just grabbing a figure out of the air.

Senator COOK—To be kind to them, they would say, in their own defence, that many of their figures are back-of-the-envelope calculations.

Mr Callaghan—That is right.

Senator COOK—For the very reason that you have put, this is a dynamic development and it is a volatile one. We still do not quite know what the outcome will be, although I think we have a better handle on it now than we have had before. People out there in the real world, as you know, have to make decisions about investment and business opportunity. So there is a need to provide some guidance and they look to the forecasters to do so. I think some of the best forecasters in Australia are sitting in front of me. I would not want to miss the opportunity, Mr Callaghan, to ask you.

Senator Kemp—Your very kind comment is noted, Senator.

Senator COOK—I am a very kind person, Senator.

Senator Kemp—Not always, Senator.

Senator COOK—Always.

Mr Callaghan—The only comment I would make is one that it is always putting it in perspective and the bottom line is going to be the most important thing. Looking at it in the macro sense, looking at it for the overall policy, of course, people in particular sectors that are totally concentrated on an industry are going to have a different view and they are going to be looking at the specific circumstances affecting that. In terms of the broader picture, the important thing is where do we think economic development is occurring and what do we think is the outlook. All the various factors that are occurring are going to be important. It is not just one element of the economy. That is the only point I was trying to make in the sense that we have to look at the whole picture. We can be focusing on what is occurring in East-Asia and someone can, with a back-of-the-envelope calculation, say, 'It might subtract this amount of growth.' To put that in perspective for anyone to make any sense of that, you have to ask: what is it taking it from and what else is occurring? That is just that one. Also: are there other things occurring? Is consumption stronger than you thought it was going to be? It is all those things. The only thing we would be saying is putting it into perspective and, hopefully, that is what we are trying to do with the mid-year economic and fiscal outlook.

Senator COOK—Do I assume, therefore, that what you see as the reason why you cannot be more confident about four per cent for 1997-98 is the Asian currency crisis and associated issues with that and that alone, or are there any other factors too that you would like to include in the mix of reasons for why you are guarded about it?

Mr Callaghan—We talked about the reasons for forecasts and can be looking at too much precision and point estimates. If I just step back a bit, there was a budget forecast done some time ago now that had year average growth of 3¾ per cent. There will be revised forecasts coming out. We have made an assessment, as we discussed previously this morning, of what

is occurring in the economy now broadly in line with the outlook at budget time. I think it is falling into false precision to say that there are some differences between picking a particular number. Even the governor, as I recall, was talking about 'around'. What is characterised in 'around', I do not know.

There are other uncertainties that occur. You raised one of them this morning in terms of the outlook for non-dwelling construction. As we said, because of what has occurred there—some of the indicators—for most people that is an area of more doubt than some of the others. That is one that you have to take into account. The one that has fluctuated a little bit is the farm sector. Soon after the budget we saw a period of very dry conditions and there was below average rainfall. There is an El Nino effect taking place now. That was a particular period of uncertainty. We saw very good rain in September and that has changed the picture a bit. What is happening in the farm sector with rainfall is obviously one that is very hard to predict. It is always an area of uncertainty. That is one factor that you would have to flag for uncertainty.

Senator COOK—So, in essence, you still think the budget forecast of 3¾ per cent is what we are on track for?

Mr Callaghan—The qualification is that the government will be releasing the midyear economic and fiscal outlook. It is not my place at all to be making any revised forecast at this stage; the government will be releasing that. From my broad assessment of the indicators that we have gone through I would say that they are broadly on track with that assessment. As Mr Evans has said, the economy now, just on the numbers for this year—and we have not even had one quarter's number for the year we are talking about—and what we saw in the June quarter and in the first half of the year, is an economy that is growing at around four per cent annualised, but that is just one small period. What I characterise is that developments are occurring broadly on track with those budget forecasts.

Mr Evans—We could spend a lot of time on details here—

Senator COOK—Sure.

Mr Evans—but if we thought there was a significant change in the outlook we would say so.

Senator COOK—I accept that—that is fine. In fact, Mr Callaghan pre-empted me in his last intervention by raising the question of El Nino. In your previous tour across all the factors I do not think that got a guernsey. I was going to ask you some questions about what Treasury is doing to try to calculate the effect of El Nino on our annual harvest and the turning off of beef and lamb. I take it that you rely on ABARE to provide you with estimates of the likely impact of that?

Mr Callaghan—That is right, yes.

Senator COOK—CSIRO tell me—I have not talked to ABARE about this yet—that ABARE has consulted them and a number of other sources for scientific advice as to the likely impact, but that they cannot really tell them what the likely impact has been because, as scientists, they want to be reasonably precise and they are unable to provide any hard advice about that. To what extent will the El Nino effect be an element in us undershooting our growth targets, do you think?

Mr Callaghan—It is really as I just said. I think the difficulty of trying of work out what might be occurring is that we certainly are under an El Nino effect, but we saw above average rainfall in September. We talked with everyone who may have had some information on it—ABARE, the industries involved, the Australian Wheat Board—to get their estimates. The

Australian Wheat Board, for example, had a range of downward revisions in what they expected to be the wheat crop. We saw very timely rain come and they have now started to increase it.

Trying to make that assessment is very difficult. Because of that rain we are now saying that, certainly for this year in particular, it is not likely to be as large as we were thinking some months back. A lot of the crop is there now. What yield we will get out of that crop is dependent on follow-up rains. I think the biggest uncertainty now for CSIRO and the scientists is that with that El Nino effect they are only going out to March next year. That really will not greatly affect this year's crop. The important thing is: will that dry spell continue into the plantings for next year's crop and affect 1998-98. That is the uncertainty now. It is a very difficult one to—

Senator COOK—It is a very difficult one. But it is not only having an effect on Australia. In the foreign affairs, defence and trade estimates yesterday, AusAID told us about the huge demand on them now for food aid to Papua New Guinea, and the likelihood of that spreading to Irian Jaya and East Indonesia because of the El Nino effect among our neighbouring economies. So the impact in terms of food prices and the impact on their economic growth is also a factor in this. I did not think it was a pre-budget bid for more aid; I thought it was a heartfelt exposition about the need that is placed on Australian aid agencies. But it is a problem which will affect neighbouring economies as well as Australia—I think that is the important point.

Mr Evans—There was a drought in Papua New Guinea because it did not rain. The El Nino—

Senator COOK—That is usually the relationship, Mr Secretary.

Mr Evans—El Nino was there, El Nino was in Australia, but it did rain in Australia. All the scientific work based on El Nino went into the wastepaper basket with all the envelopes or backs of envelopes; they were all there together because the rain came precisely when it was needed. All that work on El Nino turned out to be of no guidance because although there was not a lot of rain it came precisely when it was needed. The El Nino work is generalised work. It does not help us a lot, frankly, in our short-term forecasts.

CHAIR—I have acquaintances who, in late May and early June, were apprehensive about the El Nino effect. They are about to reap record crops across many parts of South Australia when it was supposedly suffering under the effect of El Nino. It must be very difficult if the industry itself cannot make any—

Senator COOK—That is what the secretary says. The generalised effect is right. The scientific argument seems to be whether the period between the incidents will start to shorten and the intensity of the effect will start to heighten. You can expect in the budget bids a claim from CSIRO to do some more work on this to get that science right. It is one that I think is worth while doing. I have finished with my questions on subprogram 1.1.

Subprogram 1.2—International economy

CHAIR—Does it suit the minister and officials if we break for lunch from 12.45 to 1.30 p.m.?

Senator Kemp—That is fine.

Senator COOK—We talked a little earlier about Japan. What does Treasury believe are the reasons for the slowdown in the Japanese economy?

Mr Hyden—In a short-term sense, you can say that the contraction we have had in the most recent period has been particularly influenced by the reversal in consumption growth from the December and March quarters, which were quite strong. That appears to be related to the increase in the consumption tax that occurred on 1 April; in other words, there was a substantial bringing forward of consumption, which has been reversed in the June quarter, which is the latest figure available.

Senator COOK—The tax went from three per cent to five per cent, didn't it?

Mr Hyden—That is right. That is a significant increase in an economy where market rates are only half a per cent or so and other rates are similarly quite low. There has also been a slowing in investment, which may have been associated with that or with other factors.

In the longer term sense, the Japanese economy has been going through a process of structural change as it develops as a mature economy with a greater shift to the service sector and a movement of a good deal of the manufacturing industry offshore. That has been accompanied by a considerable weakness in their financial sector with the reversal of the asset boom some time ago. The government provided a good deal of stimulus to the economy through the budget, but the effects of that have ceased to provide any further stimulus. The government is winding back the budget stimulus.

As I said, interest rates are very low, reflecting the inflation rate. There is also a fairly loose monetary policy. Again, that does not appear to be having a great stimulatory effect on the Japanese economy. The movements in the exchange rate have also been an important factor. More recently, the exchange rate has been depreciating against the US dollar. That is helping Japanese exports, which are one strong area of the economy. All in all, it is basically domestic weakness against that export strength. That domestic weakness is centred in weakness in private investment and consumption.

Senator COOK—Putting my trade hat on for a minute, do you agree with DFAT's assessment that the export strength in the Japanese economy is not likely to impact on the commodity demand for exports from Australia?

Mr Hyden—I am not sure that I would put it in such absolute terms.

Senator COOK—I probably put it inelegantly. What I was essentially saying is that we ought not fear a cutback in demand for coal and iron ore, et cetera.

Mr Hyden—The commodity composition of our trade is important in trying to assess the impact of activity changes in Japan on us. You are right; the strength of Japanese exports, which are centred on their manufacturing sector, does mean that the demand for inputs into those sectors will tend to continue, although Japanese manufacturing has been characterised by strong productivity growth, including improvements in the efficiency with which they use raw inputs. So our overall exports of major commodities to Japan have been relatively stable over a significant period.

Senator COOK—Let us hope the latest outbreak of protection is in the US Congress. Not having the votes to get fast track up does not mean to say that barriers will be erected to Japan in that economy. That is a throwaway line. You do not have to comment on that, Mr Hyden.

The other comments being made about Japan in the media currently are about the Japanese financial system, particularly the banks. There are a few questions about how rocky they might be, given the current knock-on effect of the South-East Asian currency crisis and the problems in Korea, which are of a magnitude greater than in Japan. Do you have any comment on that at all?

Mr Hyden—I would agree with the comment that these are areas for concern. They are areas we are watching carefully because a substantial deterioration in the Japanese economy would potentially have a big impact on Australia, subject to the point we were just taking about the export commodity composition. The problems with the financial sector in Japan have been longstanding and considerable efforts have been put in to dealing with them.

Senator COOK—This is what the Hashimoto government has to actually do.

Mr Hyden—They still have some way to go and the deterioration in the equity market has put further pressure on the capital position of some of the banks. As I say, it has been handled so far. We must watch to see what potential problems could arise from here on.

Senator COOK—They are our biggest trading partner, and I think Korea is about next. The Korean economy has revised its growth levels down quite considerably, has it not?

Mr Hyden—Korea is our second largest export market. The Korean economy has been growing quite strongly so far this year, but a number of people have been either revising their forecasts down or looking at the possibility of slowing in the Korean economy.

Senator COOK—There is genuine concern about their banking structure as well. Their economy is roughly the same size as the Australian economy. The bail out of Kia Motors and a few of the other bail outs that have occurred up there have given rise to some concern about how sound that economy is. Is there any comment you would wish to make about that, Mr Hyden?

Mr Hyden—No, I do not think I would want to add to what you have said, Senator.

Senator COOK—Does that mean you agree with me?

Mr Hyden—It is a potential concern. The Korean financial sector is facing problems. The Korean economy is a very different economy from the South-East Asian economies, so we cannot assume that what has happened there would be automatically followed by Korea. But, when there are problems in individual economies, financial markets tend to look round to see if there are any other areas with similar characteristics that they should be worrying about. The state of the financial sector in Korea is one focus for that attention. So, yes, it is an area for concern.

Senator COOK—Korea is an OECD level economy. That is the significance of it.

Mr Hyden—It is an OECD economy.

Senator COOK—Taken together with Japan, it is about 47.6 per cent of our total export market.

Mr Hyden—They are the two largest export markets for us. Again, some of the comments which you made about Japan and the composition of exports apply in Korea as well. Their exports have been strong. They will be affected, like Japan, by the depreciations in the South-East Asian economies, but their own exchange rate has depreciated quite a bit over the last few months. So, essentially, they have a concern about their financial sector and the strength of some of the companies, but that could impinge on the economy more broadly and its exchange rate.

Senator COOK—In turning to South-East Asia, can you give us an overview of what is happening there? Can you give us an overview as to what you think is happening and the likely impacts on the Australian economy? I do not expect precision, of course, but it would be useful if we could get a sort of summary view from you.

Mr Hyden—We have in South-East Asia a number of economies which have had some similar characteristics as well as individual characteristics. You can make generalisations, but one has to have the caveat that any generalisations do not apply equally to all economies.

As a group, those economies have been through a period of sustained and strong economic growth for periods of 15 or 20 years in which industrialisation has proceeded very rapidly and incomes have risen. Exports have been a key part of their growth as they have been able to expand particularly the export of manufacturing using the advantage of relatively cheap labour and open markets elsewhere, particularly in the United States.

Broadly speaking, the growth has been underpinned by strong domestic savings, relatively stable macro-economic policies and a quality labour force. So that has sustained them for a long period. I think what we have seen over the recent period is some weaknesses emerging in that growth story that are particularly focused on the financial sector, which has been less open to competition than, say, the manufacturing sector, which has not always been given adequate attention as far as regulation and prudential supervision.

Senator COOK—And there is a problem with the lack of transparency.

Mr Hyden—Yes, there is a lack of transparency. In some cases small institutions are dominated by family or company connections which have given concern to connected lending. In some cases state-owned banking or financial enterprises have had similar problems or have been used, at times, for industry policy purposes in a way which has not always been consistent with sound banking.

Many of those problems were not so obvious in a period of rapid growth, when things were growing quickly. When the growth slowed, some of the strains started to become apparent, particularly where the borrowers were highly geared and also where a good deal of investment may have been diverted in the boom period away from high productive activities to less productive ones, including real estate speculation and building booms which, of course, can be productive as long as there is a need for the accommodation. When that need dries up, the effects of negative gearing and so on can have a downward cascading effect on financial systems and investment.

So we did see in 1996 a significant slowing in export growth in the period. Some of that was associated with over-capacity in the electronic components industry, which is a major export industry for a number of the countries. I think another factor there was the movements in the yen and the dollar, as many of the countries had tied their exchange rates either directly or indirectly to the US dollar. So the strengthening of the US dollar has been a factor in limiting their export competitiveness. There are a number of factors that brought that export slowing, and I think that has started off the problems. An additional factor was really the preceding boom in capital inflows into the countries which, with relatively fixed exchange rates, led to problems for domestic monetary policy and the construction boom which preceded the downturn.

So the impact of those factors would vary a bit between individual economies, but most of those things would be present across the region. The problems were probably worst in Thailand, and that is where the first difficulty has emerged. Then there have been concerns in a number of other countries, with an IMF rescue package also having been developed for Indonesia.

Most of the countries have experienced substantial pressures on their exchange rates and have moved away from the peg with the US dollar. That may help, particularly because they now have significantly improved competitiveness. Maintaining that competitiveness depends

on holding the internal inflation pressures down and fixing up the underlying problems, particularly in their banking sector and in the soundness of companies that have had extensive borrowings. That is particularly the case where they have had extensive borrowings in overseas currencies, because they thought the exchange rate was going to remain pegged and now find they have much larger liabilities measured in their own currency. That is perhaps a bit of a thumbnail sketch of what has been going on.

Senator COOK—Thank you very much for that. Without going into it in great detail, my general view is that, if these economies face up to sorting out the fundamental issues of getting their economies right, open their economies and are able to have a more transparent financial sector, then the chances of them rebounding reasonably soon, in the next few years, does arise as a real prospect, and we ought not write them off. All this fashionable talk about Asia being over is really just that: it is not to be paid any attention to. Is that broadly your view?

Mr Hyden—Yes, when I was giving my quick sketch, I emphasised the long periods of growth and the basic underlying factors in that. Those factors are still there. What we have on top of that is problems in the financial sector. If the authorities fix up those problems, then that should help them get back to periods of further growth. Other areas currently need attention, including budget balances and monetary policy, but they are the sorts of issues that these countries have generally been able to deal with in the past.

Dealing with problems of financial sectors is not very easy, and dealing with the consequences of crises is not very easy but, broadly, I would agree with your assessment that, with adequate policy attention, one might expect these countries to return to relatively strong growth in the future, and hopefully in the not very distant future either.

The countries of South-East Asia are all facing longer term questions of competition from elsewhere in the region. Lower cost countries—particularly China and, in the future, Vietnam—mean that they will find it more difficult to find and maintain niches in the relative cost structure. I think one can say that other parts of the world—Latin America and East Europe—are also emerging as strong competitors in the sorts of industries that these countries have been successful in in the recent past.

CHAIR—Mr Hyden, we will have to stop there, as it is time to adjourn for lunch.

Sitting suspended from 12.46 p.m. to 1.38 p.m.

CHAIR—I call the committee to order. We will continue the examination of subprogram 1.2, international economy.

Senator COOK—Before we broke for lunch, I foreshadowed that I would like to ask a few questions about the IMF packages. Is the detail of the IMF package for Thailand available now? There was a hiccup, as they had to renegotiate part of it—or negotiate part of it—with a change of government. I think our Treasurer then raised, quite rightly, the question of whether or not if they did not come to fairly hard terms with the IMF, the \$US1 billion that we are putting up would remain. That seems to have been resolved, but are the details of the package available now?

Mr Hyden—The Thai authorities made an announcement of the content of the policy measures they were taking at the time the package was announced. I am not sure what documentation is available on that specifically setting it out, but we could certainly provide whatever is available if you are seeking that.

Senator COOK—I am.

Mr Hyden—There are summaries, but there is a lot in the very detailed measures that require a fuller document. Subsequently, as you say, the government changed its decision on the petrol tax and, following that decision, an IMF staff mission has gone to Bangkok to discuss with the government the status of the program. That mission has not yet reported to the IMF board.

The IMF is expecting that there would be some compensating measures in the budget to offset the effect of the decision on the petrol tax, but it is reviewing the program as a whole. I am not aware of any specific announcement of further measures by the Thai government at this stage, but I expect there will be one at some point.

Senator COOK—We were supportive of the government's decision to provide a \$US1 billion guarantee through the IMF as part of that rescue package. Has that been locked in now? At the time it was announced, it was prospective depending on the deal being done. Is it now locked in? Do we regard the deal as having been done?

Mr Hyden—What has been done on behalf of Australia is that the Reserve Bank has reached agreement with its Thai counterpart—the Bank of Thailand—on a swap arrangement, and that has been settled. The swap involved is undertaken in parallel with the IMF's financing, which is on a specific schedule, so that the first tranche of the IMF's money has already been provided to Thailand and, parallel with that, the first tranche of the Reserve Bank's swap has been put in place.

The next tranche of the IMF's funding is due at the end of this month and, similarly, the next tranche of the swap arrangement will be put in place at that time. So the release of the funds under both arrangements is progressing over a period and is conditional on continued adherence to the program or satisfactory performance under the program.

Senator COOK—Do we know how much of that \$US1 billion has been drawn down so far?

Mr Hyden—I do not recall the figure offhand but—

Senator COOK—You might wish to take it on notice.

Mr Hyden—I do it have it somewhere in my briefing, but we could take it on notice.

Senator COOK—Thank you very much. Similarly with Indonesia, I have seen details in the media about the Indonesian IMF agreement, some of which are quite important to Australia, particularly the deregulatory steps they have taken in the grains area and in some other areas of their economy which, given that removal of regulation, may well open opportunities for Australian exports. But do you have the full details of the Indonesian package as well at this point?

Mr Hyden—Yes, there was an agreement between the IMF and the Indonesian government on a package, which is basically a letter from the Indonesian authorities setting out the measures they propose to implement. It is of course for the Indonesian government to announce those measures, not for the fund and, while in large part the broad outlines of the measures have been announced by the Indonesian government, at this stage they have not been announced in full. So while we have some of that detail, it is on a confidential basis.

Senator COOK—One of the sticking points in those negotiations I think was the question of the subsidies provided or the direction provided for financing the people's car in Indonesia, and the imported Kia car which is rebadged as an Indonesian car. My understanding is that, as part of the package, the Indonesian authorities have agreed to accept any outcome of a

World Trade Organisation challenge by Japan, Europe and the US to the funding arrangements. Can you confirm that?

Mr Hyden—Yes, I can.

Senator COOK—Thank you. I might say that the worry I have about the immediate future for this is not that the agreements have not been reached—they have—but that, as the changes start working themselves through, given the likely social impacts that some of these changes will have, there may well be a rise of protectionist sentiment in these economies which would be exactly the wrong way to turn, I believe. Have we in any of our discussions with the IMF or with these economies directly raised this question and tried to argue or encourage a view to be taken that greater and more openness is the way to go?

Mr Hyden—I think that sentiment, which is widely shared, is something that IMF missions have clearly put to the authorities in both Indonesia and Thailand. The Indonesian program certainly involves commitments for further liberalisation of trade. I think more generally one could say that the success of these economies in the past—and other South East Asian economies—being based very firmly on outwardly oriented policies, particularly on the export side, and with that has to come an opening up of their own domestic industries. The depreciations that these economies have experienced have been very large.

Senator COOK—The increased protection quite amazed me.

Mr Hyden—They increase the price competitiveness of the domestic industries. If you look on protection as shifting resources and competitiveness between domestic industries—as tariff protection does—then depreciation does not do that, although it does affect the competitiveness of the traded goods sector relative to the non-traded goods and services sector. The depreciation does provide an opportunity for economies to remove existing protection without having such a severe immediate impact on domestic industries. I think we would see the current circumstances as an opportunity for these economies to move further in that direction.

Senator COOK—And we have put that to them?

Mr Hyden—There will be many opportunities to do that and we will be taking them.

Senator COOK—Have we put it to Malaysia? They have just increased protection for the automotive industry from 200 per cent to 300 per cent. I think they did that last week or early this week. Have we put that view to Malaysia?

Mr Hyden—I think this is getting into the field of the Minister for Trade, which you would be familiar with. While we in Treasury take whatever opportunities we can to press those messages, we have not had any opportunities in the last week or so.

Senator COOK—I acknowledge that it is in the realm of the Minister for Trade. I had trade before me yesterday and they indicated that Treasury has some interest in this as well. It seemed to me appropriate to ask you.

Mr Hyden—We are coming up to a round of APEC meetings, a ministerial meeting and a leaders meeting in the next few weeks. I would be very confident that ministers from Australia and elsewhere will be taking the opportunity to press the importance of deregulation and avoiding any return to protectionism in the wake of these events.

Senator COOK—Have we put any views we might have to Malaysia about the alleged international Jewish conspiracy or the George Soros allegations?

Mr Hyden—I cannot speak on behalf of Treasury on that question, Senator.

Senator COOK—Treasury has not had any discussions with its opposite number in Malaysia?

Mr Hyden—We do have discussions with our counterparts about the operation of financial markets, the role of speculation in financial markets and the like. They do not go directly to the specifics of Mr Soros or others. I think they would be generally emphasising that the way markets operate is driven in part by rational calculation and in part by speculation. Conspiracy theories are perhaps a bit far-fetched.

Senator COOK—I would not expect Treasury to deal with the allegations. My concern—and your answer seems to support this—is that you would actually take an opportunity to expose your views about how international markets operate, which is putting the positive analytical view forward rather than being distracted into other issues.

Mr Hyden—That is right. Opportunities arise in the various officials' discussions in APEC, in its economic committee, in the meeting of the APEC investment group that I chaired in Hong Kong a couple of weeks ago and which was accompanied by a business symposium on investment which had a large number of business people attending. There was a very strong view from the business sector but also from the officials that the appropriate way to proceed was to strengthen the actions towards liberalisation and not to regard the activities of speculators as a threat or a conspiracy but as part of the normal market processes that can arise when policies get out of joint or when there are marked changes in assessments and expectations.

Senator COOK—There has been some speculation—I think I am right on this; even the Deputy Prime Minister has in public referred to this—about the prospect of in the APEC context having a discussion between finance ministers on the currency crisis. There is no arrangement for finance ministers to have a focus discussion or to even meet at the APEC conference next week or the week after. Does Treasury have a view on the desirability of such a meeting in the context not just the of currency issues but the general stock market variations and the impact on the region of growth in the particular economies and the knock on effect to other economies.

Mr Hyden—APEC finance ministers meet annually.

Senator COOK—It is the first quarter of the year I think.

Mr Hyden—But, as you say, it is at a different time of the year. So it will not be until well into next year before that meeting takes place. However, the Deputy Prime Minister of Malaysia has called a meeting not of APEC finance ministers but of a regional group of finance ministers early next month which coincides with celebrations of the 30th anniversary of ASEAN. That meeting of finance ministers will certainly have this issue on the agenda.

Senator COOK—Will Australia be invited to that?

Mr Hyden—The Treasurer will be attending.

Senator COOK—Good. I hope that is worthwhile. It has been reported that Thailand is asking for another \$15 billion of IMF assistance. Are you aware of that?

Mr Hyden—I have seen press reports, but my understanding is that the press reports are erroneous and that no additional funding is being sought from the IMF and that they are looking at additional private sector financing. But I am not aware of any details of the supposed request to the private sector.

Senator COOK—One of the proposals floated initially during this currency turbulence/crisis and the downwardly revised growth rates of many of these economies was by Japan for an

Asian IMF expressing Asian values. That seems to have been qualified to oblivion, I might say. I hope it has. I hope your answer is that we do not support it, but do you have a view about that?

Mr Hyden—There was a proposal put forward by Japan which was discussed at a meeting of officials at the time of the IMF World Bank annual meetings in Hong Kong. That meeting did not reach any agreement on the proposal. A further meeting has been called next week which will look at the same area, but it is not clear what specific proposals might be put forward at that meeting.

Senator COOK—But Australia would be opposed, would it not, to watering down any of the IMF attitudes or principles dealing with currency crises of this sort?

Mr Hyden—Yes. Australia has attached high importance to the role of the IMF as a way of ensuring that appropriate policy actions are taken to deal with these situations. Merely providing finance will not help unless the markets are convinced that the underlying policies are dealt with. We have seen the role of the IMF as the best way of helping governments to get appropriate policy packages devised for them to consider and adopt than if they were left on their own. So we would be concerned about any arrangements which tended to undermine the role of the fund in such situations.

Senator COOK—I have just one final question before I wrap up on this. I am sorry that this is out of order, but we were talking earlier about the possible rise of a protectionist sentiment in some of these economies. The fact that the currencies have been devalued to the extent that they have, as you commented at the time, particularly in the manufacturing sectors, on top of what these economies call infant industry development, particularly in those sectors, on top of already high levels of formal protection either in tariff or non-tariff measures, means that the impact is an even higher barrier for Australian goods to get into those economies. Has any thought been given to actually raising the question through the IMF or directly with these countries about accelerating the level at which they reduce the protection ahead of the Bogor roles and opening them faster?

Mr Hyden—I mentioned earlier that the discussions between the IMF and the governments did include restructuring of industry and reducing protection. I doubt that they would have put that in the specific terms of the Bogor goals. That is something that comes quickly to mind for us as members of APEC; it is perhaps less as prominent in the IMF's horizon. But I am sure that the general point of accelerating their liberalisation of trade has been a major part of the discussions.

Mr Evans—I want to elaborate on the exchange rate point. There is a general perception that the substantial decline in the exchange rates of those four ASEAN countries in particular will give them a substantive competitive advantage. The fact is that their exchange rates had appreciated very sharply in real terms over the last two to three years. That was one of the fundamental respects in which they were getting out of line. So their uncompetitiveness had been eroded over that period. That was part of the reason for the slow down in their trade in 1996 that I mentioned earlier. The market correction, although it went beyond that to other fundamentals, did have that in mind, so they did not have to have that correction themselves.

Senator COOK—Though hasn't the correction been much greater than the appreciation in those currency values?

Mr Evans—It is a bit hard to say. I think there is a general feeling that it is probably overdone. Indeed, most of those exchange rates have come back from their lows quite a bit,

so that is probably right. But you do have to look at the real appreciation and depreciation, as well as what is happening to inflation rates.

Senator COOK—One of the other debates, which I will not trouble you with now—a certain Independent member of the House of Representatives was behind some of the arguments—was that we will be flooded by cheap Asian imports because the cost of their goods in our market will be cheaper. I do not think that is entirely true because there is no direct linear comparison. Many of the manufacturing goods that they export to these markets require component parts to be imported into their own markets for assembly and re-exported. The only cheaper part in that context would essentially be the labour costs and a few other marketing costs. The values will not be directly commensurate with the fall in the exchange rate. Would you agree with that?

Mr Hyden—Yes, we would agree with that. We would also add in the secretary's point that the exchange rate had appreciated before, so you have to look at the starting point. There has also been some depreciation in the Australian dollar in recent months. That is also an offset to the other factors.

Senator COOK—The headline reporting is against the US dollar, not the Australian dollar. What can you tell us will be the revised growth forecasts for Indonesia, Thailand, Malaysia and the Philippines?

Mr Hyden—I guess all forecasts are moving targets. The latest IMF forecast, which was in the *World economic outlook* released last month, has growth for Thailand at 2½ per cent; Indonesia, seven per cent; Malaysia, 7½ per cent; Philippines, 5.3 per cent. In that document they do not have any forecasts for 1998.

The programs that have been agreed with Indonesia and Thailand do have expectations built into them for the year ahead. In Thailand's case there is a range of expectations around with, I suppose, the majority of forecasters seeing very little growth and the possibility of going backwards—that is, negative growth—amongst a fair number of commentators. The consensus forecast for Thailand—that is the forecasts put together by Consensus Economics based on a range of private sector sources—is 1.2 per cent, which is down five per cent on their previous forecast a year ago; 5.2 per cent for Indonesia, 5.9 per cent for Malaysia and 4.4 per cent for the Philippines.

In each case that represents a slight slowing on the consensus forecasts for 1997 but a significant slowing of up to five per cent in Thailand's case, and somewhat less than that for the other countries, when the expectations in October 1997 are compared with those in May 1997. We are seeing a significant slowing. Even so, they are still quite healthy. They are substantial growth rates, positive growth rates, in absolute terms but they are slow in terms of the recent past history of these countries.

Senator COOK—We may have covered this ground before. Can you give us a growth impact on Australia?

Mr Hyden—I will leave that to my domestic forecasting colleagues who have already told you their views on that.

Senator COOK—They have already answered that. For the sake of the record, I have a copy of an MTIA national survey on the impact of the Asian economic crisis on manufacturing and construction, which says that two-thirds of the respondent companies, which were over 200 manufactures and construction companies, reported that the crisis would have a direct

affect on their business, 16 per cent asserting the impact to be significant, 56 per cent moderate and 28 per cent minor. Do you have any comment on that?

Mr Evans—Let me make one comment which is related to the point I made earlier about exchange rates. What has happened in Asia is continually referred to as a currency crisis. What happened in the currency markets was a necessary correction to their currencies being out of line. So the effects that industries in Australia or anywhere else in the world will see are the effects of developments in Asia over the past decade, not the past couple of months. The problems have been building up within those economies. So the so-called currency crisis needs to be kept in perspective.

The point that Mr Hyden made earlier was that we are aware of nothing that changes the long-term outlook for that region or for the countries in general. There are effects in the short term and they will be reasonably severe for some of those countries. They will extend beyond South-East Asia *per se*. It is just difficult at this stage to say how far, but the fundamentals of the region remain very strong. The currency crisis as such, the movements in exchange rate, is simply part of the messenger, part of the financial markets which, after all, lend the capital to these countries—part of their reassessing what is happening in the countries.

Senator COOK—It is quite a significant correction, however, and it does affect quite substantially, as we have just heard, the forecasted growth rates of the economies in the region with some sort of knock-on effect to Australia—a knock-on effect that is unquantifiable probably at this stage.

Mr Hyden—To quantify it depends on tracing through the linkages and looking at the impacts on particular industries in Australia, given the composition of our exports to them and how those industries will be affected in the overseas countries. Looking at the sort of data that you have quoted, it has to be put together across a range of industries but is one element of making domestic forecasts. Obviously the quality of that data has to be tested against other indicators as well.

I would also make the point that, in looking at the impact of the external sector on the Australian economy, one has to keep South-East Asia in perspective. It is a significant and rapidly growing part of our exports. But what happens to the Japanese and Korean economies, as we were talking about earlier in the day? They are a large part of our trade, so disturbances of a similar size would have a bigger impact on our economy and what happens in the US economy also.

Senator COOK—And the seemingly better growth likely in Europe.

Mr Hyden—Yes.

Senator COOK—Thank you, Mr Chairman.

Senator CONROY—I want to revisit an old issue. My question relates to Treasury officials who got notes or did not receive bonus payments and were disciplined—I am not quite sure if that is the right word—following the South Pacific Islands forum. How many officers were involved?

Mr Evans—There has been no change from the information I gave at the last meeting with this committee.

Senator CONROY—I am just asking for a quick recap of that.

Mr Evans—A what—sorry?

Senator CONROY—Can you tell me again, please.

Mr Evans—I'm sorry, I have a hearing problem.

CHAIR—Senator Conroy wanted to know whether he could have the figures again that were given at the last estimates hearing of the numbers of officers who did not receive a bonus.

Senator CONROY—And their levels.

Mr Evans—I do not have anything to add to what I said at the last hearing.

Senator CONROY—I am not asking for any new information, I am just asking for a quick recap.

Mr Evans—As I said, I gave you that information at the last hearing. I will now have to do it from memory, not having it in front of me. I think it was five officers and one of those was affected by performance pay. That would be on the record from last time.

Senator CONROY—And the one was who affected by performance pay, what level was that person at?

Mr Evans—That was at an SES level.

Senator CONROY—Have any of those five officers recently been appointed to a position overseas?

Mr Evans—One of the officers has, yes.

Senator CONROY—Would that be the SES officer?

Mr Evans—That is right.

Senator CONROY—What position was he appointed to?

Mr Evans—It was to a Treasury position in Washington.

Senator CONROY—What level is that at?

Mr Evans—The same level, SES band 1.

Senator CONROY—Are there any extra entitlements that you receive by receiving a posting in Washington?

Mr Evans—The same entitlements as any of our postings overseas.

Senator CONROY—Are they above and beyond a domestic posting?

Mr Evans—Yes. We do not give overseas allowances to anyone in Canberra, only those overseas.

Senator CONROY—What is the level of the overseas allowance?

Mr Evans—It depends on the post.

Senator CONROY—What is the level of the overseas allowance in this particular instance?

Mr Evans—I would not know. It is available. I can get it.

Senator CONROY—Anybody else?

Mr Evans—No. It is laid down. We simply follow the Foreign Affairs allowance levels.

Senator CONROY—I am totally guessing, but is it \$10,000, is it \$20,000? I have no experience in this area at all, so I am just seeking rough guidance.

Mr Evans—It is purely a cost-of-living allowance set for the particular location. But it is to cover additional expenses; it is not additional remuneration.

Senator CONROY—I understand. There was no increase in any form of remuneration by this transfer?

Mr Evans—No.

CHAIR—That concludes subprogram 1.2. As there are no questions on subprogram 1.3, we will now do the following subprograms together: subprogram 1.4, Taxation; 1.8, Financial and currency; 4.1, Income and other taxes; and 7.4, Superannuation.

[2.16 p.m.]

Subprogram 1.4—Taxation

Subprogram 1.8—Financial and currency

Program 4—Taxation Administration

Subprogram 4.1—Income and other taxes

Program 7—Insurance and Superannuation Commission

Subprogram 7.4—Superannuation

Senator COOK—I will start with some questions on the recently introduced legislation banning trafficking in trust losses and ask: how does that differ from Labor's 1995 legislation and could the differences be explained, please?

Mr Manoranjan—I will explain what I feel are the key differences and then, if you wish further details, I will be happy to provide them. What I consider the major difference is the fact that the combined costs of the measures as they affect family trusts are much lower than in the previous bill that was introduced into parliament. They are lower because under the first bill the family trust was defined as a trust that would have only a certain list of family members included as beneficiaries. Under the new measures, the family trust is a trust that could elect to distribute only to a list of family members. Thereby, the complaint that they had betrayed the trust deed and pay stamp duty and additional taxes under the old measure was overcome. That may not be the case now because the distributions can be made only to this limited list of family members.

The second important difference is in the income injection test. Under the previous measures that were introduced, the list of members who could be members of a family was quite extensive. Under the amended proposals, that list has been cut down quite a lot. Under the previous proposals, family members who were individuals could inject income into a loss trust which is also part of the family group in order to make use of the losses. Under the new proposals, it is not only the family members who are individuals who could inject income into those trusts but other trusts and other companies which are members of this family group. I wonder whether you want me to go further or whether that is adequate.

Senator COOK—That is not a bad opening, thank you. Does the new family trust concession mean that, for example, wealthy families can continue to traffic in losses incurred by their family trusts within the extended family group?

Mr Manoranjan—This depends on definitions which are included in the bill. The question would now be, if there is a family in the now limited sense of the term, that is, excluding some of those extended family members who were included under the previous bill, then within that family group, and within companies and trusts that form part of that family group, you could transfer losses without falling foul of the legislation.

Senator COOK—Yes, but their trusts, in the more limited group, can participate.

Mr Manoranjan—Can participate in, say, placing their income into a trust with losses.

Senator COOK—Yes. Does the ATO or the Treasury have a view about this? Do you agree with this change?

Mr Manoranjan—This is a policy decision taken by the government, I think having regard to preserving the small business sector, and we carried out that policy decision as it is our function to do.

Senator COOK—What is the difference in the effect on revenue of the first proposal and now the second proposal.

Mr Manoranjan—I could not give you a breakdown of the detailed different individual roles but the overall impact of all the changes, plus some calculation changes that were made after the before, resulted in a positive impact on revenue, but that positive impact is the sum of some negative impacts because of the fact that these trusts could now merge profits and losses and some positive impacts which arose from some adjustments that were made to the previous revenue estimates.

Senator COOK—You are addressing the current legislation?

Mr Manoranjan—Yes.

Senator COOK—How does that compare to Labor's legislation? Would the positive impacts to the revenue have been greater or less?

Mr Manoranjan—If I may explain the calculation of the positive effect of the measures, they arose first from the original estimates on the trust losses, then the fact that in the original estimates we took into account only the losses at the start up on 9 May 1995. Subsequently, we realised that the ongoing losses that were made by trusts could also be trafficked and therefore this gave to a positive figure, additional revenue.

Similarly, the first set of measures: when we estimated the revenue we did not fully take into account the effect of the income injection test because we did not really have a very good basis for estimating that impact. Under the second set of proposals, by then we had refined the estimates because of information received and that again gave rise to an increase in revenue. The minus in revenue stems from the fact that there could be no transfers between trusts between the same family group and that gives you a minus figure.

One more positive effect was the fact that the family group is now much more narrowly defined and that therefore has an impact on revenue in favour of revenue. The sum of all that has been given in the estimates and that is the figure I can give you.

Senator COOK—You have given me a very useful and fairly complete exposition of how you weight different things, but what about the bottom line outcome: does the current legislation provide a bigger gain to revenue or a lesser gain to revenue than the previous legislation? That is my question.

Mr Manoranjan—Without going into an accurate estimation, I would say the general impact would be a slight reduction in revenue.

Senator COOK—From the current legislation?

Mr Manoranjan—From the current legislation. But that reduction arises as a result of, say, the fact that these trusts with losses are able to have income injected into them by other trusts and companies in the same family group.

Senator CONROY—You indicated that the estimates on the previous government's legislation were hard to make because you did not have sufficient information which you have now got. I am interested in whether or not you are able to make an estimate of the situation

if the changes had not been made. Presumably you had a dollar forecast under the old legislation?

Mr Manoranjan—Yes.

Senator CONROY—Given all the extra new information that you say is at hand now, are you able to say that that original revenue estimate on the old legislation would have been much larger? You are not quite comparing apples with apples at the moment; what we have got is an apple and an orange. What we are interested in trying to ascertain is: if, in the original legislation you used the same calculations that you are now using on the current legislation, would there have been a greater revenue originally forecast than you are forecasting now—than the revenue than you are getting now? I apologise if that sounds convoluted.

Mr Manoranjan—The position is that we have not made that comparative calculation, so I cannot give you an answer to that now.

Senator CONROY—Commonsense would seem to indicate though that, if the base you are calculating on is larger, that means your original revenue forecast is larger.

Mr Manoranjan—Yes. That is why I mentioned that there would be slightly additional revenue under the old measures, but I cannot give you the actual amount of the revenue.

Senator CONROY—But commonsense would possibly lead you to the thought that, if the estimates you did not do had been done with this legislation, even though on the surface it appears that there is an increase in revenue from all the changes it is possible that in actual fact there is a decrease from the original legislation.

Mr Manoranjan—All in all there could be a decrease, as you suggest, but there is no real quantifying this decrease for you because I do not have the figures on that.

Senator CONROY—Thanks.

Senator COOK—I was very interested in Senator Conroy's question because I was going to ask a similar question. I am very pleased that Senator Conroy did so. Given that you said you think that the revenue implications will be less under the current legislation than under the previous legislation, have you advised the Treasury or the Assistant Treasurer of that fact in your general advice on this legislation?

Mr Manoranjan—I could not give you a definite answer to that one. All I can say is that the different impacts of the different proposals would have been placed before the government.

Senator COOK—So they know the different impacts?

Mr Manoranjan—Yes, we would have said that this would lead to a plus and the other factor would lead to a minus, but I could not tell you to what extent we analysed that.

Senator COOK—You could not tell me to what extent they analysed that?

Mr Manoranjan—I could not tell you to what extent we analysed the details of that. I will have to take that on notice.

Senator COOK—Okay, thank you.

Senator CONROY—Yesterday in the Senate Economics Legislation Committee we talked about this issue, so it is still fresh in my mind from yesterday. There seems to be a great degree of angst amongst some sections of the community about this. We received a substantial number of submissions. A question was put—I am interested in a policy answer rather than a departmental answer—about why great-grandchildren and great great-grandchildren, linear descendants, could not be part of the family.

Senator Kemp—I have not got a specific response to that. I do not know whether you may be able to assist us, Mr Manoranjan. These matters were considered and I think, as the officer at the table advised, the family test was tightened compared to the previous legislation. The government obviously felt that that was an appropriate measure. Can you add anything, Mr Manoranjan?

Mr Manoranjan—Yes. As we pointed out, one of the main differences between the original legislation and the revised legislation is that there was a broader definition of family under the old legislation, but no power within the family for trusts and companies to offset losses. If you had to bring in that power on the basis that a family group should be treated as one complete group, then you could not adopt the old definition of the family because that would have led to a vast group of trusts and companies offsetting losses and income against each other. So we had to bring down the definition of the family to a core family if we wanted to have the other proposal that they could offset losses and income within the family group.

Senator Kemp—To preserve the integrity of the measures, it was decided to essentially not define the family members too broadly. My understanding is that family members are defined to include all those who would normally be dependants. This includes spouses and children.

Senator CONROY—I was particularly pleased to see you maintain the integrity of that family. There seemed to be a real voter backlash from one particular area of Melbourne. I was pleased to see that you were not letting your family relationships get in the way. The battlers of Brighton seem to be particularly concerned about it, and I know that it is your brother's seat.

Senator Kemp—You should be more worried about the battlers in Gellibrand.

Senator COOK—What is the Taxation Office's estimate of the costs involved in the loosening of the family trust provisions in relation to the income injection test?

Mr Manoranjan—As I informed you earlier, I do not have that data with me. I can take that on notice and then provide the information later.

Senator COOK—Do you agree with the proposed change?

Mr Manoranjan—As a tax office, we implement the proposed changes. We do not comment on policy.

Senator COOK—The new legislation, even with its more concessional treatment of trusts, estimates higher revenue collections than Labor's original bill. Could you explain why that is.

Mr Manoranjan—That is the issue I explained earlier. For the Auditor-General's bill, the estimates were made on the basis that the losses at the start-up date were the only losses that would give rise to additional revenue because they could not be trafficked. Subsequently, we revised the data in order to take into account other losses that would be included in later years which previously could have been trafficked but now cannot be.

Senator COOK—I understand what you are saying. I thought you said, when we went to the summary of the impact on revenue of one bill as opposed to the other, that there was a bigger revenue impact.

Mr Manoranjan—That is right.

Senator COOK—You are saying that there was a bigger reward to revenue, not loss to revenue?

Mr Manoranjan—Yes. The overall result was an increase in the revenue rather than a decrease.

Senator COOK—Where did the lobbying come from to cause the government to want to change its mind on this? Did you receive representations?

Mr Manoranjan—We received representations on the general bill from all sectors. I think there were quite strong representations from the small business sector.

Senator COOK—In favour of making the change that was made?

Mr Manoranjan—In favour of making the changes.

Senator COOK—Were any of those representatives from what in the jargon these days are termed ‘high wealth individuals’ currently under scrutiny by the ATO?

Mr Manoranjan—As I stated in my reply earlier, I think the representations came from all types of businesses, such as high-wealth, medium- and low-wealth businesses.

Senator COOK—So you would have received some representations from high-wealth individuals—I just call them rich people—if these representations came from across the spectrum?

Mr Manoranjan—Yes. We got representations from all categories—high, medium and low.

Senator COOK—Were any of those who made representations under scrutiny by the Taxation Office itself?

Mr Manoranjan—I do not think I can reply to that question because it impacts on the confidentiality of information.

Senator COOK—Can you let us have a summary of who made representations?

Mr Manoranjan—We could provide that information.

Senator COOK—You could?

Mr Manoranjan—Yes.

Senator COOK—Thanks very much indeed.

Senator CONROY—It would be fair to say that a lot of them lived in Brighton in Melbourne. There were 30 individual submissions from Brighton.

Senator Kemp—These were the people who probably spoke to you about opposing the superannuation surcharge and convinced the Labor Party to change that.

Senator CONROY—It is your brother’s electorate.

Senator Kemp—I thought that I would put that on the record.

CHAIR—Perhaps they were among the thousands who wrote form letters over the Workplace Relations Bill.

Senator COOK—I have some further questions regarding trust losses. What consultations were held with the National Tax Liaison Group regarding the bill?

Mr Manoranjan—If I recollect correctly, we had a discussion with the National Tax Liaison Group on the trust loss issues. There was a full day’s meeting on the trust loss issues.

Senator COOK—You had a meeting?

Mr Manoranjan—Yes. One full day’s meeting was devoted to it.

Senator COOK—What practitioners make up the membership of the National Tax Liaison Group?

Mr Manoranjan—Again, I cannot give you a complete list from memory, but I can say that most of the leading accounting and law bodies are represented on that committee.

Senator COOK—Did the government promise the National Tax Liaison Group that it would be consulted on the final form of the bill?

Mr Manoranjan—In that meeting, we gave no such undertaking.

Senator COOK—No such undertaking was given?

Mr Manoranjan—We gave no such undertaking.

Senator COOK—I am advised that a verbal undertaking was given that the Australian Taxation Office, through Mr Peter Simpson, gave a verbal commitment in a May-June meeting of this group that they would be consulted on the final form of the bill before it was introduced into parliament. Is the meeting you are referring to the May-June meeting?

Mr Manoranjan—From memory, I think it is. There was one meeting with Mr Peter Simpson. At that meeting, he gave no such undertaking.

Senator COOK—You are saying Mr Peter Simpson was at the May-June meeting?

Mr Manoranjan—He was at one of the meetings, and he gave no such undertaking.

Senator COOK—Do you know whether it was the May-June meeting that Mr Simpson was at?

Mr Manoranjan—I could say that I think it was the last meeting we held with the tax liaison group, but I cannot recollect the exact date.

Senator COOK—So, if the last meeting was the May-June meeting, that is the one?

Mr Manoranjan—That is the one.

Senator COOK—I think you have said it twice now that he gave no such verbal undertaking.

Mr Manoranjan—I can expand it to say no such verbal, written or other undertaking.

Senator COOK—Is it usual when consulting with the National Tax Liaison Group for their views on legislation to go back and show them the final bill and get their views?

Mr Manoranjan—That would, again, depend on the profiles from the government because there are different stages of consultation and different ways in which consultation is done. In some cases they may be shown a draft bill. In some cases their views are canvassed, taken on board and put to the government for decision. So there is no standard procedure by which we operate in those cases.

Senator COOK—Sometimes you do and sometimes you do not?

Mr Manoranjan—Generally, we would canvass the opinion but not go to them with the draft bill. On occasions we have consulted them on draft legislation as well.

Senator COOK—Have representatives of the National Tax Liaison Group contacted you or written to you saying that they understood an agreement was given and that it has not been honoured?

Mr Manoranjan—They have written to us and we have responded to them that no such undertaking was given and that the minutes of the meeting show no evidence at all that an undertaking was given. The minutes were circulated to all the bodies.

Senator COOK—I understand that the minutes of the meeting show that no such undertaking was given. But have representatives who were at the meeting written to you expressing their belief that an undertaking was given?

Mr Manoranjan—Again from memory, I remember receiving one such representation. I think we replied to that letter saying that no such undertaking was given and that they were under a misapprehension as to that aspect.

Senator COOK—So at least one member of the group was of that view and contacted you?

Mr Manoranjan—Yes.

Senator COOK—Could I ask who that was, which member of the group it was?

Mr Manoranjan—I cannot recollect now.

Senator COOK—But since you have received the letter and replied to it you would have that on file?

Mr Manoranjan—Yes, I will have that on file.

Senator COOK—Is that information you can supply to us?

Mr Manoranjan—If the same person has made representations to you and now authorises us to release that name, we may be able to do that. It is not really private correspondence but something that is taking on a broader level.

Senator COOK—I understand that, but you will have to show me yours before I show you mine. I do not know whether it is the same person or persons.

Mr Manoranjan—Then there is some difficulty because some people may not like their representations being made public.

Senator Kemp—Why do you not both show me the letters and I will make a judgment?

Senator COOK—I am coming to that in a minute, Senator Kemp. You will get an opportunity to join this friendly—

Senator Kemp—A fact finding mission, is it?

Senator COOK—These are questions. So you have one reply that raises this question in the belief that the undertaking was given?

Mr Manoranjan—Yes.

Senator COOK—You have replied to it?

Mr Manoranjan—Yes.

Senator COOK—You do not have a copy of that letter but what, in essence, was your response?

Mr Manoranjan—I think the response was just telling them that no such undertaking was given.

Senator COOK—Has that ended the matter?

Mr Manoranjan—I hope so.

Senator COOK—Were representatives of the Law Institute of Victoria, the NTAA, the Law Council of Australia, the Australian Society of CPAs and the Taxation Institute of Australia at the May-June meeting?

Mr Manoranjan—Again, from memory, yes.

Senator COOK—I think you said ‘the last meeting’, but you were not sure whether that was the May-June meeting.

Mr Manoranjan—I would say the last meeting of the trust losses.

Senator COOK—Which was probably the May-June meeting, but we have not established that.

Mr Manoranjan—Yes.

Senator COOK—Is it possible for you to table a copy of the minutes of that meeting for this committee?

Mr Manoranjan—I think so.

Senator COOK—Is it possible for you to table any notes made by officials at that meeting for the information of this committee?

Mr Manoranjan—I could not be too sure whether those notes would have been preserved because once the minutes were written they may have been destroyed.

Senator COOK—I see. Could the remaining records, other than the minutes, be tabled?

Mr Manoranjan—If there are other minutes or there is other information, we will certainly make that available.

Senator COOK—This is a high level committee of quite professional and respected people. Why is it, do you think, that at least one member of that committee is of the view that an undertaking was given that the group would look at the legislation?

Mr Manoranjan—I think that question should be addressed to that particular member who is making the representation, because I cannot give you a reason as to why he thinks so.

Senator COOK—All the people here are well conducted and respectable individuals. The fact that someone raises this question with you must be a matter of some importance. Did you not inquire of them?

Mr Manoranjan—I would have expected them to have come back with a response to our letter, if we are talking about the same person.

Senator COOK—Thank you.

Senator CONROY—I wanted to ask about the wheat industry fund tax issue. Could you tell me what issues you are aware of at the moment?

Mr Lowndes—The issues relate to the capital gains tax treatment of the contributions that wheat growers have made to the wheat industry fund.

Senator CONROY—The wheat industry fund and the goodwill on the shares is to be floated on the stock market. Is that correct?

Mr Lowndes—The issue relates to the fact that the cost base under the law will comprise the amounts that the wheat growers have contributed to the fund. Because the fund has accumulated profits, the market value—once shares are issued in the funds—will be higher than the cost base.

Senator CONROY—Can you tell me when this issue was first raised with the tax office?

Mr Lowndes—I cannot speak for when they contacted the tax office.

Senator CONROY—Have you provided any advice to the Treasurer or the Minister for Primary Industries and Energy?

Mr Lowndes—The tax office has provided advice to our minister as to how the current law will treat this particular transaction.

Senator CONROY—When was that provided?

Mr Lowndes—That was a couple of months ago. It was in August.

Senator CONROY—I understand that the Treasurer's office has provided an informal ruling on the matter which states that everything except deduction up to this year's budget is to be taxable. Does that ring a bell?

Mr Lowndes—No. As I say, the tax office has provided advice as to how the law will work. I am not sure of any correspondence between the Treasurer's office and the Grains Council.

Senator CONROY—Have you undertaken any work on the cost to growers of that view that everything except deduction up to this year's budget is taxable?

Mr Lowndes—No, we have not.

Senator COOK—My question relates to salary repackaging. Has there been any exercise undertaken to estimate the cost to revenue for what seems to be a growing practice of salary repackaging in Australia?

Mr Manoranjan—We have that practice under review. We are seeking to keep an ongoing brief to make sure that we keep following up the relevant points in that area, but I am unaware of any actual estimate being made of the revenue loss up to now.

Senator COOK—So when you say you have it under review, what type of analysis do you put it under?

Mr Manoranjan—Again, I cannot provide you details of that, but I know that the section of the office that is dealing with that has that practice under review.

Senator COOK—Is there no-one from that section here who can give us some more detail?

Mr Butler—I am afraid I was out of the room when that question was asked.

Senator COOK—My headline question was: can you estimate the cost to revenue of salary repackaging in Australia? I think the answer was that the matter is under review, but the officer was not aware of any calculations about the cost to revenue. My follow-up question—which it seems you are unfortunately in the position of having to field, Mr Butler—is: what is the nature of that review if it has not gone to calculating costs to revenue?

Mr Butler—'Salary package' is quite a broad term. There are a number of components you may look at there, including packaging in the way of motor vehicles, school fees and a whole range of things. At the moment, we are doing a range of work around some aspects of what people do with their income; how they might structure their tax affairs to put themselves in a position where they may be or they perceive that they are in a better position tax-wise.

It is difficult to give a broad estimate of the whole thing because there are so many different components of it along the way, so I cannot deal with your question in any more detail than that at this moment.

Senator COOK—It is my impression that this is a growing practice. Is that an impression that you also share?

Mr Butler—I think it is a fair summation that it is becoming more common for people who receive a salary or wage to look at what they see to be some tax advantages. It does go up and down. It is almost like fads—a particular thing might become popular for a while and then die out. There has been a fair bit of discussion in the media. An article was written that said

that motor vehicles are the most advantageous thing tax-wise, so people these days perhaps tend to look more to that rather than at other forms of salary packages that they may have used in the past. There is, of course, the impact of fringe benefits tax on that.

Senator COOK—If you share my impression that it is a growing practice, then it is a reasonable conclusion to say that there is likely to be a growing loss of revenue because of the growth of that practice.

Mr Butler—If they do salary package, they might reduce their PAYE obligations but, at the same time, there would be a fringe benefits tax obligation. If there is a reduction in revenue, it would only be the net different between those two. We have the double challenge of making sure that if they do salary package that it is appropriate, that they still meet their PAYE obligations but that, at the same time, the employer meets their fringe benefits tax obligations.

Senator COOK—Can you give us a view as to in which direction you think the net impact goes—up or down?

Mr Butler—I really could not do that today. I am happy to look into that issue and take it on notice.

Senator COOK—I would appreciate that. Does the general anti-avoidance provisions, part IVA, apply to salary repackaging?

Mr Butler—It would be unusual to see that being the case. I think the more likely situation is that the salary component is no longer taken as salary but as some sort of fringe benefits and falls under the fringe benefits tax legislation. That is the more likely outcome. I am not aware of any cases recently where we have actually concluded that part IVA could or should apply to it.

Senator COOK—So there is no point in my asking you how many cases because you are not aware of any, so presumably the answer is—

Mr Butler—It would be very unusual. I have no recollection whatsoever of that happening.

Senator COOK—Given that part IVA has not, to your knowledge, thrown up any such cases, is there a deficiency here in the current tax law that needs to be looked at?

Mr Butler—As I explained, the situation is that a person may take some of their salary as a fringe benefit. That would then lead to a fringe benefits tax obligation. That is an issue that we look at. If the person meets their obligations under the law—be it through the PAYE system or that fringe benefits tax system—then our role is mainly around that.

Senator COOK—So you are not in a position to advise us whether or not you think there is a deficiency.

Mr Butler—It depends what you mean by deficiency. The world changes and people have all sorts of different remuneration arrangements. It is a challenge for the tax law and the administration of that law to keep pace with those changes. Clearly, 30 years ago or more there would have been no salary packaging and everyone would have paid PAYE tax. Things are quite different now.

It is hard to know what is in your mind in terms of deficiency. It is more about testing, on a whole range of indicators, whether the law is working as designed. If it is not working as designed, then we would certainly advise government of that.

Senator COOK—My concern is obvious: one of the principles of tax law is fairness and the belief that everyone is paying their fair whack, so if those that have access to salary

repackaging are escaping some obligation, those elsewhere in the structure may feel that the tax system is not fair. Consequently, my question is about the incidence of this type of practice, what the impact on the revenue is, and whether you think there is a deficiency in the law that needs to be cleaned up. That is essentially the point that I am coming from. What is the cost across various Commonwealth departments and agencies of proposed salary sacrifice arrangements?

Mr Butler—The proposed cost of compliance or the cost to revenue?

Senator COOK—No, salary sacrifice, repackaging—sacrificing salary for other benefits.

Mr Butler—Are you talking about a net reduction in revenue? I do not have that figure with me. I just want to clarify the question.

Senator COOK—What will the changes mean in costs to departments? When we are seeing this occur in departments, as we are, has that resulted in savings to those departments at the expense of Tax?

Mr Butler—I do not have that information with me, but if you want me to take that on notice, I will explore what I can do to come up with some figures around that.

Senator COOK—I would be grateful if you would do that. Does the ATO support the availability of salary repackaging in the Public Service?

Mr Butler—I suggest that we would support it within the clear parameters of the law. If the law clearly says that this is appropriate, then that would be a position the ATO would adopt. We would not condone action that was clearly outside the law.

Senator COOK—I think we would all agree that if it is within the law it is okay; if it is outside the law then it has to be dealt with. In terms of the value judgment you apply—and I am not talking about a legal judgment about whether or not people are behaving illegally, but as a practice in which the Commonwealth is a participant and, in at least one view, may be an example to others—does the ATO have a view about whether or not it is a desirable practice for the Commonwealth to engage in?

Mr Butler—I really do not believe it is the role of the ATO to have a view on those things. The best way I can try to deal with that question is to say that within the ATO the Commissioner of Taxation has made it quite clear that he will not entertain salary packaging to the extent that it could put people in some sort of financial advantageous position, because all sorts of things flow on from a person's salary. There could be a child support obligation attached to it; there could be superannuation issues. So it has been made quite clear within the ATO by the commissioner that he is looking at it in a restrictive sense—I'll put it that way.

Senator COOK—So there is salary repackaging in the ATO itself?

Mr Butler—If you mean that SES officers have access to a Commonwealth vehicle, that has existed for some time. We have an agency agreement that is currently under discussion with the unions and with staff. There has been some discussion there—nothing is finalised—about the possibility of some staff choosing to do something different with their salary arrangements. In respect of those things, the commissioner has made it very clear that he will only entertain a more conservative view of it.

I have just been reminded that it is only the things that are currently available to people, which is the motor vehicle and superannuation. For SES officers there is some other support around—and this is common across the public sector—for home telephone expenses.

Senator COOK—This is a current negotiation that is not yet settled?

Mr Butler—Yes.

Senator COOK—When is it likely to be settled?

Mr Butler—I think we would like to know that ourselves, Senator. We are a big organisation, and this is the first time that we have gone out to actually negotiate with the staff themselves in addition to talking to the unions. That is proving quite a challenge with approximately 17,000 staff. Our original plans were to have it finished before Christmas, but I think that is a rather risky outcome at this stage. It is more likely to be the new year.

Senator COOK—Estimates committees seem to be meeting at a bewildering frequency this year. I hope it does not continue at such a heavy pace next year, because I am sure it puts burdens on you—it certainly does on us. I will come back to you and ask you about this next year to see to what extent the ATO itself may be engaged in salary repackaging. But I note the comments that you have made about what the director has said. I look to see the outcome of the negotiations.

Senator CONROY—With regard to the wheat industry fund, did you hear my questions before?

Mr Butler—No, sorry, Senator.

Senator CONROY—It was just to do with the capital gains tax treatment of the wheat industry fund, which, I understand, is being discussed. Can you tell me when the issue was first raised with the tax office?

Mr Manoranjan—I know that the Taxation Office is looking at the issues relating to this wheat industry fund. I think a decision is to be made quite soon. I am unable to give you full details of the issues involved.

Senator CONROY—I was just really asking when it was first raised with the tax office.

Mr Manoranjan—I could not give you an answer on that one. I can get that information for you.

Senator CONROY—When it was raised, did it come via the office of the Minister for Primary Industries and Energy or through the Treasurer's office?

Mr Manoranjan—I cannot answer that question.

Senator CONROY—Have you provided any advice to the Treasurer or to the Minister for Primary Industries and Energy?

Mr Manoranjan—Again, I make the same reply.

Senator CONROY—If you have, could you tell us as much as you can within obvious constraints the nature of the advice and when it was provided—the Treasurer has indicated it was August.

Mr Manoranjan—Yes.

Senator CONROY—As you might have heard me say, I understand that the Treasurer's office has provided an informal ruling on the matter which states that everything except deduction up to this year's budget is to be taxable. Based on the Treasurer's office interpretation, can you explain how much each of the components to do with the levy, goodwill and the other two per cent deduction would cost to tax revenue?

Mr Manoranjan—Could I take these questions on notice?

Senator CONROY—Absolutely. Have you undertaken any work on the cost to revenue of the Treasurer's view and the approach preferred by the wheat industry?

Mr Manoranjan—I will take that on notice.

Senator COOK—I am back on the one track—salary repack. Are you aware that, for example, Department of Veterans' Affairs hired outside consultants at a cost of about 14 grand, I understand, to advise staff on how to avoid tax in repackaging their salary?

Mr Butler—I have no knowledge of that, Senator.

Senator COOK—Will you investigate whether that is right?

Mr Butler—I am not sure that it is within our powers to investigate that, but I will certainly explore that issue. The way a secretary of a department chooses to spend funds is really up to them but, on the other hand, if things are happening that may be inappropriate, then certainly we would want to know about it. I can do no more than offer to look into that for you.

Senator COOK—Do you know if any other departments other than Veterans' Affairs have been hiring out outside consultants to advise them on this issue?

Mr Evans—Senator, could I comment on that. I do not believe it is a question for the tax office. If they wish to respond, I will not intervene, but the question does not go to them; it goes to the Department of Workplace Relations and Small Business, which advises the government on the policy on Public Service remuneration.

Senator COOK—Indeed. The Department of Workplace Relations and Small Business does offer that advice but the tax office does have an interest in advice that might affect the tax base, I would suspect.

Mr Evans—But they could not discriminate between one employee because that employee happened to be employed by, say, the Commonwealth government rather than BHP. They can only administer the tax law.

Senator COOK—Indeed, I think it comes back to the question of one of the other obligations of the tax office, which is to advise the Treasurer on threats to the tax base. We have not got it very clear at this point of the discussion, I would have to concede, as to whether or not there is a threat to the tax base of any substantial sort, although I think we have got it clear that there is likely to be a reduction in revenue of some order of magnitude. Going to the question of fairness that I cited earlier, if some taxpayers can access this tax minimisation practice, do other taxpayers think the fairness in the tax system stands? What does that do to a general perception of the system?

Mr Evans—That goes to the question, for example, of the fringe benefits tax, which was introduced to deal with this generic form of a problem. Salary packaging is just one form—probably the most important form—of tax minimisation that the FBT was directed at and that is what it does.

As one element of that, for example, it taxes cars, but it does so on a concessional basis. Mr Butler, in responding earlier, referred to cars as being in his view one of the most significant elements of salary packaging, yet there is no deficiency in the tax law there. The tax law is operating precisely as the legislation is written. The legislation is designed to be concessional towards motor vehicles. It was designed in that way when introduced by the previous government. It has not been changed.

As far as public servants are concerned, the previous government introduced salary packaging by way of motor vehicles for SES. There is now the opportunity under the current government's policy to extend that on an equity basis beyond the SES to lower income levels. Whether people there will want to do so is another matter, but the opportunity exists. That

element of salary packaging which is seen by Mr Butler as being significant has been in the Public Service for a long time and of course in the private sector for much longer. A bigger example of a much longer standing is superannuation. It has been available to public servants in particular for decades and probably is the most important element of salary packaging in the Public Service. So all these things are a matter of degree or perception perhaps.

Senator COOK—Can I come back to the car in a moment. There is a lot of truth in what you say, there is no question of that. Superannuation has been historically available in the public sector but only comparatively recently in the private sector, particularly in the lower wage areas. So there has been a chance in the public sector which has not been necessarily able to be availed of according to your level of wages in the private sector until relatively recently. I guess that is just an observation in passing.

The car is unquestionably a large part of the interest in salary repackaging but it is not the only part. Other issues are involved here. Perhaps, Mr Butler—I am not trying to avoid you, Mr Evans; whoever is the appropriate person—you might be able to go briefly to what other elements of a typical salary repackaging are meant to minimise taxation on behalf of the taxpayer. The higher income levy would be one, wouldn't it?

Mr Butler—It is difficult to give a generic case because people are in quite different circumstances, as I mentioned earlier. The most common are the things you have mentioned—superannuation and motor vehicles—but in the past I have seen instances where people have—

Senator COOK—I think we are all agreed you were responsible for introducing them into the discussion first of all, Mr Butler. Quite rightly, I might say.

Mr Butler—I have seen examples of people who have chosen to package school fees which might be paid directly. I have heard stories but not seen cases where people have gone so far as to have other types of private expenditure paid by their employer. But the actual real tax advantage—

Senator COOK—Child care would be another?

Mr Butler—I could not answer that question today. I was thinking of other types of private expenditure. But the real issue here is that, when you look at the difference between the fringe benefits tax payable and those sorts of things and taxes payable on their income, there is no real gain to the person and therefore no real loss to the revenue. I think that is where some of the things have fallen out of favour in the way of salary packaging, because the concessional tax treatment is not so much there. I can try to explore that further in a written response if you want me to do so.

Senator COOK—Okay. Does the Department of the Treasury offer salary repackaging to its SES officers?

Mr Evans—We have not yet done so but we are about to. As part of our certified agreement, we will be making it available as a matter of principle to all staff. We will be prescribing precisely what type of salary packaging can occur in terms of what salary sacrifice options will be available and what will not. I can provide you with the list. Although it has not yet been provided to staff, I am happy to provide it to you.

The purpose of that list is to constrain the use, but relevant to your comment about what you understood to be occurring in the Department of Veterans' Affairs and the use of a consultant, if any officer within Treasury wishes to salary sacrifice, we will oblige them to use a consultant—in other words, pay a consultant—rather than our doing the administration.

I think you will find that is what is happening in Veterans' Affairs and elsewhere. The services are being fairly readily offered, I understand, but that will save us the administration.

Senator COOK—I took it from what you said that the practice that you are about to introduce into the Department of the Treasury will be available to all levels of salary.

Mr Evans—That is right.

Senator COOK—I think you made that point specifically. You have made the point about advisings. You are going to be employing consultants to advise. I did not quite catch all of the detail that you provided. Perhaps if I tell you what I am getting at you can answer the question if this is covered. Will any of those consultants be able to advise staff on interposed entities, like a trust or a company, as a way of affecting a minimisation of their taxation?

Mr Evans—I hope our officers would not pay for such advice because that will not be possible for permanent staff. The Public Service Act still prescribes the form of employment which will not allow that. That can be done with contractors but not permanent staff. The advice will simply be to allow the individual officer to seek advice, 'Is it worth my while, for example, taking a car?' Quite often the answer to that will be, 'Can you really afford to do it?'

Senator COOK—Given the answer in terms of the Public Service Act that applies across the agencies for all employees of the Commonwealth other than contractors. I suppose in the private sector it will be entirely up to what the consultants advise and the terms of employment and whether or not particular employers will allow the practice to be exercised. That concludes my questions on salary repackaging.

Senator CONROY—I have some questions on small business. Will Treasury have any liaison with the Department of Workplace Relations and Small Business in regard to the introduction of carry back losses to enable micro business owners to recoup taxes of a prior period when they have a loss year?

Mr Murray—To my knowledge no.

Senator CONROY—Will Treasury have any liaison with the Department of Workplace Relations and Small Business in regards to the unlocking of superannuation funds to provide venture capital for small business?

Mr Murray—Not to my knowledge.

Senator CONROY—Can Treasury advise on the progress of the single entry point task force—the one-stop shop for small business?

Mr Butler—I can advise on that. There has been a team working for some time looking at various ways of providing a single entry point to government. You may be aware that the Victorian government has been operating a system for some time as has the Queensland state government. So there has been quite extensive discussions with people in those organisations as to how they are going about it and what their long-term plans are. We in tax have had people heavily involved in that and working on the task force. They are currently looking at some high level design issues and looking at options as to how it could be introduced. There has been some discussion around whether it would be a paper based system initially and electronic later or should we take more time building the electronic interface from the start. Those things are under active consideration. There is quite a deal of activity and it is an important initiative we see across a range of departments.

Senator CONROY—I have to declare self-interest. Do you know when you will have an opportunity to supply MPs with the amount of the notional surchargeable contributions factor?

Mr Thorburn—We have nearly completed the calculations of the factors. Our liaison with the Department for Finance, who have requested those in supporting the minister, means that we are on track for that. I believe the minister is considering the communication of that to the members of the scheme.

Senator CONROY—I am interested in the Commonwealth Bank's announcement to do with their share buyback scheme in terms of the tax office implications and the Treasury implications.

Mr Manoranjan—I will give you our view first.

Senator CONROY—Please.

Mr Manoranjan—Basically, we do not have all of the information on the basis of which we can give you any studied comments. The ATO is reviewing the situation. That is as far as I can go now.

Senator CONROY—This is almost trafficking in capital gains losses as opposed to trust losses, isn't it?

Mr Manoranjan—Shall we say that there are issues involved—

Senator CONROY—That bear similarity.

Mr Manoranjan—I would not go that far. I would say that the other issues involved relate to the claiming of capital losses and the use of franking credits. Beyond that, I do not think we can comment until we really get all of the information.

Senator CONROY—How quickly do you think you will be in a position to comment?

Mr Manoranjan—I think we would look to doing it as early as possible.

Senator CONROY—I am not trying to be unfair, but is that a week or is that two weeks? There are a lot of shareholders interested in this.

Mr Manoranjan—The time frame would depend on the actual extent of the information and how quickly it is supplied. We will do it as soon as possible.

Senator CONROY—But the deal as it is structured at the moment certainly carries a significant tax advantage which would see a fairly substantial loss in revenue to the Taxation Office. Would that be a fair comment?

Mr Manoranjan—It would be a fair comment to say that there is a tax advantage, but whether it is a tax advantage that is within the law or whether the law should deal with it is a matter that is being studied now.

Senator CONROY—Have you had a chance to look at the details of it so far other than the newspaper reports?

Mr Manoranjan—I cannot give you comments on individual taxpayers' cases, but what I can say is this: the newspaper information is available and we looked at it.

Senator CONROY—Would you agree that it is a contrived transaction from what you have read so far?

Mr Manoranjan—I would not be able to comment on it until we have looked at all the facts.

Senator CONROY—That is probably as far as I can go with you then, but we will be back.

CHAIR—At this point I just want to do a bit of housekeeping. Obviously we are going to struggle to finish Treasury this afternoon. There are some programs that I would like to delete

where there are no questions. I do not think there is any point in people hanging around today or being involved in any other day. The programs that we will not be requiring are 1.6, Debt management; program 2, the Royal Mint; program 3, the ABS; and program 4, the Taxation Office. In relation to program 7, we will only be requiring program 7.5, General insurance. We will not be requiring program 8. It is my intention that we will finish at exactly quarter to four because most of us have planes to catch tonight. The officers for these programs will not be required.

Senator CONROY—I have one further question to continue from where I was a minute ago. If you reached a conclusion that the Commonwealth Bank's proposal was contrived, would you then consider that part 4A would come into play?

Mr Manoranjan—Again, I would not like to comment on a particular taxpayers' case, but I could say that, generally, if we feel that there is a case for applying part 4A, we would.

Senator CONROY—In a contrived transaction circumstance.

Mr Manoranjan—If there is a contrived transaction circumstance and other requirements of part 4A are met.

Senator CONROY—Thanks.

CHAIR—We have just had a revamp. We do not need officers for subprogram 7.5—the matter that was to be raised can be dealt with elsewhere—so we will not be dealing with any of program 7, the ISC. Are there any further questions on subprograms 1.4, 1.8, 4.1 or 7.4?

Senator COOK—Yes. I was talking about the tax reform task force. How many times has the task force met since its inception?

Dr Henry—The task force has met on numerous occasions. I would not be able to say off the top of my head precisely how many, but it would certainly be more than half a dozen occasions.

Senator COOK—Are minutes kept of those meetings?

Dr Henry—Formal minutes are not kept of those meetings.

Senator COOK—Is a record of discussion kept?

Dr Henry—There is no formal record of discussion kept.

Senator COOK—How do you know what you have talked about?

Dr Henry—We have very good memories.

Senator COOK—How many members are on this committee?

Dr Henry—There are five members of the committee.

Senator COOK—There is nothing written down that constitutes any body of consideration by the committee after half a dozen meetings at least? Do you have an agenda?

Dr Henry—Yes, when we meet we do have an agenda.

Senator CONROY—Do you remember who is on the committee?

Dr Henry—Yes. My memory is that good.

Senator CONROY—Would you like to share it with us?

Dr Henry—Certainly. I am obviously a member of the task force. I chair it. Mr Peter Simpson from the Australian Taxation Office is a member of the task force together with Dr Ian Watt of the Department of the Prime Minister and Cabinet, Mr David Stevens of the cabinet policy unit and Mr Nigel Bailey of the Treasurer's office.

Senator COOK—Is there any reason why no minutes or no record of discussion of this quite important body are not kept? Procedurally it strikes me as, shall I say, odd.

Dr Henry—I think the only reason would be that it is unnecessary.

Senator COOK—You have fantastic memories the whole five of you, Dr Henry, if it is unnecessary to keep any record of what you have agreed. Is it possible to table the agenda of this committee?

Dr Henry—No. I would not want to table the agenda of the committee. I would regard the agenda of the committee meetings as being, in themselves, involving policy issues. I would see those matters as being between us as officials and the government.

Senator COOK—Is the reason why you do not have minutes or a record of discussion that you do not want to have any leaking from this committee? Is that the reason?

Dr Henry—No. That is not the reason. We would not expect this committee to leak were such minutes in existence.

Senator COOK—How many decisions have you made?

Dr Henry—Numerous decisions.

Senator CONROY—Presumably you will remember exactly how many.

Dr Henry—Let us say that I can remember the important ones.

Senator CONROY—And how many is that?

Dr Henry—I am afraid I cannot give you an exact number.

Senator COOK—That is because you deem it to be matters private to the committee or because you do not want to.

Dr Henry—Perhaps earlier I overstated my capacity. Perhaps I simply cannot remember. I could not give you an indication.

Senator COOK—Please do not say that, Dr Henry. You will shatter my faith in your ability to recollect the details of tax reform. I have always found your memory to be quite extensive, your ability to recall fairly instant and your command of detail to be impressive. Please do not tell me I am wrong about all those things.

Senator CONROY—When you present your report you will not forget to put all the chapters in or anything?

CHAIR—Senator Conroy, I am not sure that is a question we ought to be dealing with. I understand the nature of the question, but I am not sure it is helpful to the estimates process.

Senator COOK—What written advice has the task force been provided with?

Dr Henry—From whom?

Senator COOK—From whatever source.

Dr Henry—Are you referring to submissions that the task force may have received?

Senator COOK—That is one category of advice, yes.

Dr Henry—The task force has not and will not be calling for submissions as such. You would be aware there is a separate government members task force which has called for submissions, including through the national press. That body will be considering submissions on tax reform. The taxation task force that we have been talking about, as I indicated, has not actually called for submissions and will not be calling for submissions. Having said that, some

people nevertheless have seen fit to write to the task force. We have looked at those submissions as they have come in.

Senator COOK—For the sake of my prurient interest in this sort of detail, can you tell me what a day in the life of the task force looks like? You meet and have discussions. Do you send out for information? Do you commission inquiries to seek better detail?

Dr Henry—The task force is supported by a group in the Treasury of which I am the First Assistant Secretary. That group is located with the taxation policy division of the Treasury. The day-to-day work of the task force is performed by that group. The task force itself meets on an ad hoc basis, and it considers the work which has been prepared by that tax reform group within the Treasury.

Senator COOK—If I asked for those documents you would not make them available to me, would you?

Dr Henry—No.

Senator CONROY—How many people in that group?

Dr Henry—It varies considerably. That is because the group is composed not only of a core of individuals who work closely with me, that numbers about eight, but in addition a number of people from within the taxation policy division, a number of people from within the Australian Taxation Office and some people from the financial institutions division in Treasury who have responsibility for certain matters. So it is quite a sizeable group when you put them all together. I would say that there would be perhaps 30 people involved.

Senator COOK—To whom do you report?

Dr Henry—That group reports to the task force. The task force reports through the Treasurer to the cabinet or to a committee of the cabinet.

Senator COOK—Do you report to the Assistant Treasurer as well?

Dr Henry—No.

Senator Kemp—That is correct, Senator.

Senator COOK—You do not receive any reports?

Senator CONROY—We know you do not know anything about tax.

CHAIR—Order, order! Senator Conroy, come on!

Senator Kemp—Senator, we know that the Labor Party knows nothing about tax reform. You have a wide variety of views on it.

CHAIR—Order! We have done pretty well today, but I do not think we ought to spoil the last five minutes.

Senator Kemp—Yes, we have done very well. I am a bit sorry about the behaviour of Senator Conroy. We are almost there.

Senator COOK—Has cabinet considered any of the material from your committee so far?

Dr Henry—We have been providing material on an ongoing basis.

Senator COOK—What is a mega-tax package?

Dr Henry—A pretty impressive one, I suspect, Senator.

Senator CONROY—As opposed to a mini-tax package.

Senator COOK—In the eye of the beholder.

Dr Henry—Perhaps.

Senator CONROY—Is there anybody from outside Treasury other than ATO officials—public servants in any other departments—that are having input?

Dr Henry—Yes, we have involved people from other departments, some on an ad hoc and temporary basis. We are using some other people.

Senator CONROY—You have seconded people to your group?

Dr Henry—Yes, that is correct.

Senator CONROY—Which departments?

Dr Henry—At the moment, for example, we have somebody from the Department of Social Security with us.

Senator CONROY—And other ones that you have previously had?

CHAIR—Senator Conroy, I have got to decide who is going to have the call here. I had called Senator Cook and you are now interposing questions. It is normal for one senator to have the call. I think perhaps I should let Senator Cook continue.

Senator COOK—There have been a number of reviews announced in the last budget. I think one of them was on trusts. Is that subsumed into your work now or is that a freestanding separate review?

Dr Henry—It will be for the government to decide whether it would want that particular review and, as you said, there are in fact a number of them. Whether it would want that particular review subsumed within the taxation reform exercise. At this stage the government's intention, as I understand it, is to continue with that particular review on a stand-alone basis.

Senator COOK—That is, rocking along independently of you?

Dr Henry—I would not say that it is independent in the sense that I indicated earlier.

Senator COOK—You can look over its shoulder.

Mr Henry—We have working on the tax reform exercise a number of people from taxation policy division and they are the same people who would be working on that particular review.

Senator COOK—Is this the same for the other announced reviews of various elements of tax that are going on?

Dr Henry—Yes.

Senator COOK—They are all continuing according to their own proposals.

Dr Henry—Yes, they are.

Senator COOK—Do you know when that taxation on trust review is going to report?

Dr Henry—I do not know the precise timing.

Senator CONROY—Presumably that means it was not discussed by your group of five?

CHAIR—Order!

Mr Murray—If I can take that: the work with the taxation policy division and the tax office on the trust review, as Dr Henry indicated, is continuing. That work is at a reasonably advanced stage. When it will be made public has not been decided at this stage.

Senator COOK—Sorry, I was not asking that last part, but thanks for the information anyway. When is it likely to conclude?

Ms Chester—At the moment we are still working on the basis of the Treasurer's budget night press release and that is the taxation of trust discussion paper would be released in advance of next year's budget, with a view to also enabling time for adequate consultation once the discussion paper has been released. The government would then consider the discussion paper in conjunction with submissions that we receive in that consultation process.

Senator COOK—The program of consultations is clear. What happens beyond that point is still open-ended.

Ms Chester—That is a decision of government then, whether they would like it to be considered in the context of the budget, as was announced on budget night, or as Dr Henry intimated, whether it would be rolled into tax reform.

CHAIR—Order! Senator Cook, because we have to make a couple of decisions, we are going to have to stop questioning there. Can I say to the officials of the Treasury who are still required—and that includes subprograms 1.4, 1.8, 4.1 and 7.4 that we are doing now, then 1.5 Fiscal, 1.7 Investment, 1.9 Business Law and 1.10 Corporate Direction and Support—that I have no idea when we are going to continue this estimates process for your department. We have already gone four hours over what was considered to be an allocated time for this committee and we have not heard the Department of Industry, Science and Technology yet, which was part of that time that had already been allotted.

The committee will be attempting to start at 9.30 on Monday morning but then the Senate will sit. I do not know whether we will get leave to continue while the Senate is sitting. The Senate is sitting continually until 4 December so some arrangements are going to have to be made by the managers of government business and opposition business to work out when the estimates process will be concluded.

It has been suggested that next Thursday may be the day, but that depends on whether officials are available. I am sorry that I cannot be more helpful than that, but this process has gone on far longer than time had been allocated or even intended. It is not within my power to tell you when we will be reconvening. I promise we will notify your department at the earliest possible opportunity, once some agreements have been reached, as to when we will continue the process for those programs which have not been completed. Thank you for your attendance. I apologise to those who are here and have not had an opportunity.

Senator Kemp—I seek the indulgence of the committee. An issue involving Treasury was raised in another committee and the Secretary to the Treasury would like to provide further information.

CHAIR—Go ahead, Mr Evans.

Mr Evans—Senator Faulkner put a question to the Department of the Prime Minister and Cabinet regarding the naming of a Treasury building after Sir William McMahon. They were not able to answer the question; I can. He asked the question: did Treasury object to having a building named after Sir William McMahon? The answer to that is categorically no, that Treasury did not object. He asked a prior question: did the Prime Minister approach Treasury with the aim of having the next Treasury building named after the former Prime Minister, Sir William McMahon? The answer to that is also no, hence the second question did not arise. We are not aware of anyone having made such an approach. Certainly the issue has never been considered within Treasury.

CHAIR—I declare the committee adjourned to a date to be determined.

Committee adjourned at 3.46 p.m.