



COMMONWEALTH OF AUSTRALIA

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SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Reference: A new tax system

WEDNESDAY, 3 MARCH 1999

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SENATE
SELECT COMMITTEE ON A NEW TAX SYSTEM

Wednesday, 3 March 1999

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

Substitute member: Senator Mackay

Participating members: Senators Brown, Colston, Harradine and Margetts

Senators in attendance: Senators Conroy, Cook, Gibson, Harradine, Mackay, O'Chee, Sherry and Woodley

Terms of reference for the inquiry:

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

spending power for a range of 'cameo profiles', including but not limited to those presented in the proposals, under the following scenarios:

- (i) a GST extended to the necessities of life (such as food, clothing, shelter and essential services), and

 - (ii) a GST not extended to the necessities of life (such as food, clothing, shelter and essential services);

 - (e) with the aim of identifying families and groups who may be disadvantaged by the Government's proposals, focusing on lower and fixed income individuals, families with dependent children or adult members, groups and organisations, and those with special needs, such as people with disabilities;

 - (f) the assumptions made as to consumption and saving patterns and the cost of living for the various 'cameo profiles';

 - (g) whether the stated objectives of the package can be met by using an alternative and fairer approach; and

 - (h) such other matters as the committee considers fall within the scope of this inquiry.
- (3) That the committee also inquire into and report, on or before 19 April 1999, on the broad economic effects of the Government's taxation reform legislation proposals with regard to the fairness of the tax system, the living standards of Australian households (especially those on low incomes), the efficiency of the economy, and future public revenues, including:
- (a) the effects on equity, efficiency and compliance costs of including, or not including, food or other necessities of life in the GST, together with any related adjustments to the package if food or other necessities of life were GST zero-rated;

 - (b) the effectiveness of the package in easing the poverty traps facing people on low incomes, and reforming and streamlining tax and income support for families with children, taking into account the static and life-cycle impacts on families with children;

 - (c) options for amending the income tax schedule to make it more equitable;

 - (d) the findings of the Tax Consultative Committee chaired by David Vos;

 - (e) options for improving the effectiveness and fairness of the tax system and reducing inequitable or unreasonable tax avoidance and minimisation, including consideration of alternative areas for tax generation, either where there are current tax concessions or where Australia's taxation system does not address major tax potential, and without limiting the foregoing, the consideration of taxation of foreign companies operating in Australia, including the relative merits of resource rent taxes, royalties or land taxes as compared to company tax in securing a fair compensation to Australia for use of its resources, whether the 150% tax concession for research and development should be restored and whether small companies should be allowed to be taxed as partnerships.

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

the proposed transfer of responsibility for local government financial assistance to the states, and whether it discriminates between states,

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

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

Committee	Matters for Inquiry
Community Affairs	The impacts of the Government's taxation reform legislation proposals on the living standards of Australian households (especially those on low incomes), including:

	<ul style="list-style-type: none"> (a) the scope and effectiveness of the proposed arrangements on charities, child care services, aged care services, welfare services, local government human services and all not-for-profit organisations in maintaining the quality and affordability of essential community services, including the implications for the public funding of these services and the implications for the commercial activities of these organisations, and whether unconditional GST-free status should apply to <i>bona fide</i> charities; (b) a detailed examination of the zero-rating of health services, including an examination of which services should be zero-rated; (c) the effects on community sector organisations of changes to their tax exempt status, and of the compliance costs of the proposed tax arrangements; (d) the effects of the proposed private health insurance rebate; (e) the effects on people with disabilities; (f) the effects on public, community and private housing, including the levels of rents; and (g) options for amendments to improve the fairness or efficiency of the proposed legislation.
<p>Employment, Workplace Relations, Small Business and Education</p>	<p>The employment incentive and education impacts of the Government's taxation reform legislation proposals, including:</p> <ul style="list-style-type: none"> (a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability; (b) the effects on employment; (c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services; (d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources; (e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students; (f) the effects of the proposed changes to the tax system on employment;

	<ul style="list-style-type: none"> (g) the effects on wage costs, particularly if the basic necessities of life are taxed; (h) the scope and effectiveness of changing the unemployment benefits, pensions and Newstart Allowance 'tapers'; (i) the effects of the proposed changes to the tax system on training and adult education; and (j) options for amendments to improve the fairness or efficiency of the proposed legislation.
<p>Environment, Communications, Information Technology and the Arts</p>	<p>The broad effects of the Government's taxation reform legislation proposals on the environment, the arts and information technology, including:</p>

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

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

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

WITNESSES

AMIES, Mr John Edward, Senior Manager, Finance and Administration, Queensland Sugar Corporation	1499
BALLANTYNE, Mr Ian James, General Manager, Queensland Canegrowers Council and Australian Canegrowers Council	1499
BRADLEY, Mr Gerard Patrick, Under Treasurer, Queensland Treasury	1485
BRODERICK, Mr Gordon James, Executive Director, Distilled Spirits Industry Council of Australia	1448
CAMPBELL, Councillor John Holt, President, Australian Local Government Association	1466
CASTLETON, Mr Peter John, Government and Public Concerns Portfolio, FIA National Council, Fundraising Institute Australia Inc.	1528
CRAIGIE, Mr Max, Deputy General Manager, Australian Sugar Milling Council	1499
FLACK, Mr Ted, Fellow, Fundraising Institute Australia, and Director, Third Sector Management Services Pty Ltd	1528
HALMARICK, Mr John Edward, Member, Distilled Spirits Industry Council of Australia	1448
LASSEN, Mr Jeffrey Alan, Acting Director, Tax Policy Branch, Queensland Treasury	1485

LIVINGSTONE, Mr John David, Chairman, Distilled Spirits Industry Council of Australia 1448

MALES, Mr Warren, Principal Economist, Queensland Sugar Corporation 1499

MORRIS, Mr Stephen John, Executive Director, Customs Brokers Council of Australia 1513

NETTLE, Mr Rodney Alan, Chief Executive Officer, Australian Local Government Association 1466

NICOLL, Mrs Bernadette Marie Carter, Accounting, Research Officer, Workplace Health and Safety, Australian Sugar Milling Council 1499

RYAN, Mr Warwick, Indirect Tax Adviser, Ernst and Young, Distilled Spirits Industry Council of Australia 1448

SMITH, Mr David James, Acting Assistant Under Treasurer, Economic Performance, Queensland Treasury 1485

WALLACE, Mr Robert Bruce, Corporate Affairs Director, Customs Brokers Council of Australia 1513

Committee met at 9.02 a.m.

CHAIR—Today the committee continues its inquiry into the proposed changes to the Australian taxation system. The Senate referred the inquiry to the committee on 25 November last year. This hearing continues the second stage of the inquiry. In this stage the committee will examine the broad economic effects of the government's taxation legislation proposals. It will have regard to the fairness of the tax system, the living standards of Australian households, especially those on low incomes, the efficiency of the economy and future public revenues. The committee will report on the second stage of its inquiry by 19 April 1999.

This committee called for submissions to be lodged by 29 January this year. In fact, the committee is still accepting submissions and has so far received well over 1,300. This is the second public hearing to be held by the committee in Brisbane in the course of its inquiry. In addition to this hearing, the committee will be conducting further public hearings around Australia.

The committee has released the submissions relating to stage 1 of the inquiry and the submissions of those witnesses who gave evidence at earlier hearings. The committee does not intend to release all of the remaining submissions as yet except for submissions by the witnesses who are giving evidence today. Is it the wish of the committee that submission Nos 643, 631, 631A, 1,088, 1,086, 781 and 800 be made public? There being no objection, it is so ordered. I now declare that those submissions to this inquiry, together with their attachments, be released.

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

BRODERICK, Mr Gordon James, Executive Director, Distilled Spirits Industry Council of Australia

HALMARICK, Mr John Edward, Member, Distilled Spirits Industry Council of Australia

LIVINGSTONE, Mr John David, Chairman, Distilled Spirits Industry Council of Australia

RYAN, Mr Warwick, Indirect Tax Adviser, Ernst and Young, Distilled Spirits Industry Council of Australia

CHAIR—I welcome Mr Livingstone, Mr Broderick, Mr Halmarick and Mr Ryan of the Distilled Spirits Industry Council of Australia. I invite you to make an opening statement based upon your written submission and, if you would be kind enough, to answer questions from the committee.

Mr Livingstone—We know the committee has received over 1,000 submissions on the new tax system and we greatly appreciate the opportunity you have given DSICA to appear before you today. As most of you will be aware, DSICA represents the major spirits and liquor producers and distributors in Australia. JBB Asia-Pacific Pty Ltd is also a major spirits producer. Our submission and our appearance today are on behalf of both DSICA and JBB. The members of DSICA are listed on the cover of our submission to your committee. DSICA believes that Australia's current taxation regime for alcohol is a ramshackle system full of anomalies and loopholes. This view is shared by many other groups.

DSICA strongly supports the government's proposed alcohol tax changes as set out in *A new tax system*. These proposed changes are a significant improvement over the existing ramshackle system. You will be aware that the legislation to give effect to the proposed changes to the alcohol tax system has not yet been introduced into the parliament. DSICA is involved in ongoing consultation with the government regarding a number of aspects of the proposed alcohol tax changes. DSICA's long-term goal is to achieve a volumetric alcohol taxation system where all alcohol beverages are taxed according to their alcohol content. The government's tax proposals are a significant step towards this goal. DSICA encourages the government to go further in its proposal to rid the existing system of inequities. The government has acknowledged in the ANTS document that spirits are highly taxed. This is one of the few governments that has been prepared to publicly acknowledge what DSICA has been saying for many years. DSICA would have preferred the government to have done more to redress the existing imbalance. However, we appreciate the revenue constraints involved.

DSICA strongly supports the decision to tax all ready-to-drink alcohol beverages under 10 per cent alcohol content at a similar rate to beer. DSICA urges the committee to ensure that cider is included, as proposed by the government, in this taxation regime. Some cider-based ready-to-drink beverages are more than eight per cent alcohol content. Cider should not be taxed like wine under the proposed wine equalisation tax. DSICA supports the proposal to tax all alcohol beverages over 10 per cent at a new rate. This approach will

remove the tax incentive to produce wine-based imitation liqueurs. However, DSICA is disappointed that the concessional treatment for brandy, although reduced, will be retained. DSICA is disappointed that the government has decided to maintain the existing unjustifiable concessional treatment for wine, especially cask wine. We believe that wine should be taxed on a volumetric basis, like all other alcohol beverages. We support those independent winemakers who wish to see the phased introduction of a volumetric WET tax on wine. The retention of the value based WET tax for wine will be one of the last remaining major anomalies in the alcohol tax system. I would now like to call on Warwick Ryan to make a short presentation regarding the proposed tax changes and DSICA's suggested amendments to them.

Mr Ryan—We have handed out this morning hard copies of a small number of overhead slides which I would like to talk through briefly. In addition to those slides, we will have one piece of paper describing the costs and the tax incidence on a range of ready-to-drink products which we purchased here in Brisbane last night. Firstly, DSICA has been saying for quite some time that there is a need for alcohol tax reform in Australia. DSICA is not the only industry group that has been saying that. This is a quote from the Alcohol and Other Drugs Council of Australia:

. . . the current alcohol taxation system is an absolute mess.

This is what we have been saying for quite some time. The Alcohol and Other Drugs Council also has a view that Australia should move towards a volumetric rather than a price based system for the taxation of all alcohol. It is one of those few times when the health lobby groups and the industry groups come together very firmly with a single view in terms of this particular issue.

In terms of the size of the alcohol market in Australia, the purpose of this pie chart is just to keep things in perspective. There is a lot of discussion about designer drinks, new-age drinks and ready-to-drink beverages. It is interesting to see that the largest proportion of the alcohol market is beer in Australia. Wine and cider together make up about a quarter. The new-age beverages and the premixed spirit beverages are only a very small portion of the overall alcohol market in Australia.

In terms of a way of thinking about alcohol taxation, DSICA supports the standard drinks concept which applies generally to labelling of alcohol beverages in Australia. DSICA has been very active to try to educate members of the community that one standard drink whether it is a nip of spirits, spirits with a mixer, a glass of regular beer or a glass of wine has the same amount of alcohol in it. A standard drink is approximately 10 grams of alcohol.

Whenever I put this slide up people say that is an awfully complicated slide. I do it without apology. It probably is a very complicated slide because it actually describes our existing tax system for alcohol in Australia. I will not bore you by going through all the technical details here, but basically there are two different wine rates in Australia at the moment, there are two different spirit rates, there is a special rate for beverages which have a mixture of spirits and non-spirits in them and there is a beer rate. We have in the wine rate no relationship to alcohol content at all. Some of the major anomalies in the current system are actually in the way the existing wine rate works. If I can just take you through that.

At the moment in our Australian alcohol tax system you get the benefit of the concessional wine rate whether it is a 3½ per cent alcohol content wine cooler, whether it is a fermented beverage like Sub Zero which has no wine in it at all, whether there is some wine in your ready-to-drink product which is a spritzer product or whether it is a high strength cider based product at 8.4 per cent. They get the benefit of the concession for the wine rate. The same rate applies to both casks and bottles. If you use wine as the base for an imitation liqueur, like Father O’Leary’s, you get the benefit of the concessionary wine rate. Also fortified wines like port, sherry or vermouth get the benefit of that rate.

DSICA has been saying for a number of years now that there are major anomalies in this existing tax system. Just to be clear, the way the wine rate works at the moment is there is no excise duty and there is just a sales tax at 41 per cent of the value of the product. So a low value product like a four-litre cask of wine pays very little tax and a high value bottled product pays a lot more tax.

CHAIR—It is not the slide, Mr Ryan, it just a bit early in the day for so many drinks.

Mr Ryan—Just for the record, if we could for thirty seconds, DSICA put to the government and the Senator Gibson tax consultative committee a proposal for a taxation system for alcohol that would be independent of the form of alcohol. The key factor in deciding how the alcohol should be taxed would be the alcohol content. DSICA’s proposal was that there would be four bands in this new system, that products under 3.8 per cent would be taxed at one low rate to encourage the production of low alcohol products and that all the ready-to-drink and designer drink products would be taxed at the same rate as beer because they compete with beer and they are purchased in a ready-to-drink form. We put the proposition that we think that wine should be taxed at the same rate as beer. That was a proposition we put.

Senator CONROY—Winemakers assured us the other day that you are not a competitor at all. When faced with a choice of buying a drink of wine or buying a CD, they are comparable alternatives.

Mr Broderick—They would.

Mr Ryan—That is to be expected. We suggested two higher bands for fortified wines and spirits above 23 per cent. If we now have a look at what the government has proposed in ANTS, you will see that, with the exception of wine and a couple of other minor differences, what has been proposed by the government is we believe a great step forward. The government has announced a proposal which basically says that all alcohol products under 10 per cent, other than wine or beer, will be taxed at the same rate, at a similar rate as beer. So the government’s proposition is that all of those ready-to-drink products—whether they have spirits or fermented sugar in them or have a wine base or a cider base—should be taxed at the same rate. We support that very strongly. It removes the incentive to use different forms of alcohol to manipulate loopholes in the current tax system.

In relation to beer, one difference between beer and all the other products under 10 per cent is that beer will get the benefit of an excise free threshold of 1.4 per cent. So all beer—and this is not well understood by a lot of people in the tax debate—gets the benefit of the

deduction of 1.4 per cent off the alcohol content of the beer before you apply the excise rate to the remainder. So there is no special rate for low alcohol beer. All that that mechanism does if you have a light beer with 2.5 per cent alcohol in it is take 1.4 per cent of that away and leave you with only a small amount to impose excise on. Whereas with the Carlton Cold you have got roughly five per cent alcohol and you are taking 1.4 per cent off the five per cent and then applying excise to the remainder.

Now that we have seen the government's proposal we do not understand why the same 1.4 per cent threshold does not apply for the other products as well. If our initial proposition that these products are all competing with beer has been accepted and that they are substitutes for one another and are competing in the marketplace, then we are disappointed that 1.4 per cent excise free threshold does not apply to all of those products. When I take you through the prices of some of these products in a moment, you will see that the West Coast Cooler suffers under the new regime because it does not have the same benefit of the 1.4 per cent excise free threshold as the beer does.

In terms of products above 10 per cent, the government has decided that all of those products other than wine and brandy will be taxed at the same rate. We think this is a great step forward as well. It means that the imitation liqueur, the Father O'Leary's with 17 per cent alcohol in it, will be taxed at this new excise duty rate. That taxation will be irrespective of the source of the alcohol in the product. So there is no longer a tax incentive to use a wine base to produce an imitation spirit or an imitation liqueur.

The government has retained the concessional rate for brandy that exists in the current system—it has reduced that concessional rate, but it has still retained it. DSICA has the view and has for many years that all full-strength spirits should be taxed at the same rate. We are disappointed that the government chose to retain that concessional rate for brandy. We would prefer the brandy rate to be increased to be the same as the other full-strength spirits.

I guess our greatest disappointment, as Mr Livingstone said before, is that the government drew a line between wine and all of these other products and said the products on the right-hand side of the page will be taxed under the excise duty system plus a 10 per cent GST and the products on the left-hand side will have a new special tax, a wine equalisation tax, and that tax will be based on the wholesale value of the product irrespective of the alcohol content.

DSICA supports the position of the independent winemakers who say that wine equalisation tax should be applied taking into account the alcohol content of the products, not the value. They also say that the volume rates that you could apply to a wine could be phased in over three years to collect the same amount of revenue that the government is forecasting it will collect from the wine equalisation tax, which is \$600 million in the first year, \$700 million in year two and \$720 million in year three. So we do not accept the suggestion that a move to a volumetric tax on wine will destroy the wine industry in Australia because the analysis as we have seen it of the volumetric wine proposition does not take into account this proposed phasing in which would have over a three-year period a move to a volumetric system for wine tax.

I ask you to turn to the hard copy handout of this presentation. We have added some additional information about some statistics we have gathered on the level of wine imported into Australia. Our view is that a wine equalisation tax based on value and not on volume will continue to encourage the importation of large quantities of low value bulk wine for use in Australian wine casks. What is not well known is that there are large volumes of very low value bulk wine coming into Australia to go into Australian wine casks. We do not understand how the grape growing community can be concerned about a volumetric tax on wine when there is clearly insufficient supply in Australia at the moment.

Senator GIBSON—What is the total volume of wine consumed in Australia per annum, and what proportion of that is cask?

Mr Livingstone—About 340 million litres of domestic wine. Of that, about 80 per cent is table wine and, of that, 60 per cent is cask. So it is about 48 per cent of the total wine business.

Senator SHERRY—What percentage of wine is imported?

Mr Livingstone—In 340 imports there are 25, so it is about eight per cent.

Senator SHERRY—Has that been growing?

Mr Livingstone—It has been growing dramatically in the last two years. I think one of Warwick's charts shows this.

Mr Ryan—In fact, Senator, if I can take you through the next couple of slides they answer those very questions.

Senator SHERRY—Thank you.

Mr Ryan—I take you to table 1 where you can see that, for the year 1997-98, 25 million litres of wine was imported into Australia and, of that, 65 per cent or 17 million was bulk wine to go into casks. So 65 per cent of all the wine imported into Australia in 1997-98 was bulk wine to go into casks. I take you to table 2, where you can see the answer to the senator's question about whether those levels of imports have been stable. In table 2 you can see separated out the quantities of imported fortified wines—the white boxes on the graph. You can see that those have been fairly stable. Sparkling wines are the darker boxes. They have been quite stable. The table wines are the grey bars on the graph. You can see that that has grown dramatically from 1994-95 at 9.4 million litres. We are forecasting 24 million litres of table wine coming into Australia in 1998-99. That is based on the seven months to date.

If you were to ask the question: where is this wine coming from? if we look at the year just completed—1997-98—you will see that 21.5 million litres of table wine came into Australia. If you go to table 3 you will see that of that amount 10 million litres came from Spain at an average value of \$1 a litre. That 10 million litres of bulk wine is going into Australian wine casks.

Senator GIBSON—Is that value—

Mr Ryan—I would probably have to take that on notice, Senator. I am not quite sure.

You can see that, for other countries we traditionally import wine from, the value is much higher. So, for France, from where we are importing champagnes, the value is \$12 a litre; New Zealand is \$5 a litre; and Italy is \$3.50 a litre. From Spain it is \$1 a litre. I take you back to table 2. There was a big jump in the numbers in 1995-96. We understand that at that stage—which was three years ago—a lot of bulk wine came in from Chile to go into Australian wine casks. We currently are gathering from the ABS data about the country source of those figures over the last three or four years. We would be happy to provide that to the committee.

As a final part of the presentation, what I would like to do is take you back to the issue of the ready-to-drink products. We are happy to take questions on all of these issues at your pleasure. We have handed out to you a one-page summary called 'Tax per standard ready to drink beverages'. The purpose of this piece of paper is to indicate the anomalies in the existing system and to substantiate our argument that cider is getting a huge free kick under the current system and that the government's decision to tax all these products on the same basis is a sound decision which your committee should support.

The first column shows the products I bought from a Queensland hotel. I went to the Spring Hill Hotel bottle shop here in Queensland last night and purchased one of each of those products. In terms of alcohol content, West Coast Cooler has the lowest alcohol content. It has only 3.5 per cent alcohol by volume. The number of standard drinks is the only sensible way to compare the amount of tax on each of these products. All the bottles are slightly different sizes and the only common way of approaching it is to look at the number of standard drinks in the container. So the West Coast bottle has the lowest number of standard drinks. It only has 0.7 of a standard drink. You will see that in the Queensland hotel last night it cost \$2.95.

The Lemon Ruski and Sub Zero both cost \$3.95 in the Queensland hotel last night. They have a very similar number of standard drinks. You will see that the Lemon Ruski has 1.3 and Sub Zero has 1.4. Sub Zero has 5.5 per cent alcohol and Lemon Ruski has five per cent alcohol. You are aware that Stolle Ruski was developed specifically to take advantage of the current tax anomalies by mixing a wine base with spirits. A great reduction in the excise duty payable has been achieved. No excise duty is paid on Sub Zero because it is taxed like wine under the current system.

I purchased a can of Bundaberg Rum and Cola. The Bundaberg Rum and Cola has only 5.5 per cent alcohol. It is exactly the same amount of alcohol by volume as Sub Zero. The number of standard drinks is 1.6, which is slightly larger than Sub Zero. The can of Bundaberg Rum and Cola cost \$4.80. It is the same size container, same alcohol content and similar number of standard drinks and the price was \$4.80 as against \$3.95 for Lemon Ruski and Sub Zero.

The final product purchased was a bottle of Strongbow White, alcoholic cider. This product has 8.4 per cent alcohol by volume. On a range, this product is out here. The

number of standard drinks in this product is 2.3. It has three times the alcohol of West Coast Cooler. It has almost twice the alcohol of these other three products. Its price in the Queensland hotel last night was exactly the same price as the West Coast Cooler, \$2.95. The reason is that this product is taxed like wine.

Our proposition is that that is a fundamentally discriminatory concession in favour of a product which results in a significant incentive to create a high alcohol product and pay very little tax. One way of looking at the anomalies in the tax system is to see how much tax we are collecting on each of the standard drinks in each of the bottles. If you have a look at the tax per standard drink column, you can see that the West Coast Cooler pays 77c, which is quite high because it has quite a low alcohol content. The Lemon Ruski pays 50c per standard drink. The Sub Zero pays about 37c. Sub Zero gets the advantage over Lemon Ruski because it pays no excise duty at all, whereas Lemon Ruski has to pay excise duty on the one per cent vodka that is in this bottle.

The Bundaberg Rum and Cola pays 87c per standard drink. It is the highest amount of tax collected per standard drink. That is because the alcohol in here happens to be distilled spirits and excise duty is payable at the full spirits rate on the 5½ per cent alcohol that is in this can. No excise is being paid on the 5½ per cent alcohol that is in this bottle. The Strongbow White, because it gets the advantage of the wine tax system, only pays 28c per standard drink.

Under the government's proposed system, these prices will all change because all of these products will be taxed on the same basis—that is, they will have a broadly similar rate to the beer excise rate applied to the amount of alcohol in them, regardless of the source of alcohol. Whether the source is apples, whether it is sugar, whether it is fermented, or whether it has some wine base, the government's proposal will tax them all at the same rate.

You will see in the final column that the tax per standard drink—and this is including the GST now—has come much closer. These have all really been levelled out. The one that stands out as not being levelled out is the West Coast Cooler. That is because it has only 3.5 per cent alcohol in it but tax is collected on all the 3.5 per cent. Our proposition is that if that 1.4 per cent excise free threshold that we talked about for beer was applied to these products, you would see the West Coast Cooler come back down significantly closer to the rest.

CHAIR—Do you have any figures of what the tax would be if you went to your proposition and had a volumetric tax?

Mr Ryan—In relation to wine or in relation to these products?

CHAIR—In relation to these products. I thought you were talking about Strongbow at 8.4 per cent alcohol content.

Mr Ryan—Yes. What would happen to its price?

CHAIR—Yes.

Mr Ryan—Its price under our calculations would go up. The second column from the left in the table is headed up ‘National average pre GST price’. So the first column is what I actually paid last night at the Queensland hotel. The second column has been provided from a survey of all of the advertised prices for the products around the country, so it is the national average pre GST price. You can see that that price is only \$1.52. If the government’s proposal goes through, then the price of the Strongbow will go up from \$1.52 to \$1.85, which is an increase of 33c per unit.

CHAIR—I see.

Mr Ryan—So we have tried to show the price changes there. We could come back to you with an estimate of what that would mean in terms of increased collections by the government on cider. That would be a simple calculation based on the volume of cider.

CHAIR—Assuming constancy.

Mr Ryan—Sure, exactly. I guess our proposition in relation to cider is that we understand the cider manufacturers are very concerned about what a price increase like that might mean to their product. Our position is that they are getting a huge free kick at the moment. If you look at the column headed ‘National average post GST’, we have taken off the sales tax, we have imposed the excise duty that the government is forecasting, we have added the GST, we have kept the retailer’s margin the same and you can now see the comparative prices of the products. So the Strongbow White even under this system is only \$1.85 compared with the Bundaberg Rum and Cola at \$2.88 and the Sub Zero at \$2.80. So it is still actually competitive on a price basis. The fact of the matter is that the cost of production of these different products is different. So the Bundaberg Rum and Cola will always be more expensive than the Lemon Ruski, Strongbow White or the Sub Zero just because of the costs of production of using distilled alcohol.

Senator SHERRY—Wouldn’t you have a decline in consumption of cider therefore producing less, so the unit costs will go up? So the price may go up more than is indicated at \$1.85.

Mr Ryan—I agree entirely. I think you are absolutely right. The point we would make—and we have not attempted to forecast what the elasticities of demand for cider would be if the price went up 30c—is that, even if we are wrong, even if we are out by 10c or 20c or 30c, there is still a price differential in favour of this product.

Senator SHERRY—That is assuming that they are not making what would be regarded as excess profits. We do not have that information, but I am sure we are going to get it.

Mr Halmarick—I think, Senator, it is worth commenting on the cider. This product—Strongbow White—is not the major selling size of cider. Most of the cider is in a sweet, dry and draft 375 millilitre bottle with 4.7 per cent alcohol—probably 80 per cent of the RTD cider is at that 4.7 per cent of alcohol. This Strongbow White, at 8.4 per cent, is a small portion of the total market, and that 4.7 per cent cider, as I say, is 80 per cent or probably more of the market. The proposal to put cider at the same rate as other RTDs would increase the bottle price by about 14c or 15c only, assuming the same dollar margin is retained by the

manufacturer and retailer, so it is a very small increase, which I believe would have no effect on consumption because of the preference of those people who drink cider to continue to drink it. What is 10c to 15c a bottle?

Senator SHERRY—Do you have production and sale stats on cider? Can you just take that on notice, because I should not be asking questions at this stage.

Mr Ryan—Sure. We are happy to take that question on notice.

Mr Broderick—The only other point I would like to make about cider is that when we use the word ‘cider’ we all consider the usual apple-tasting product. With today’s technology it is possible to take the apple taste out of it and to take the colour out of it so that you have a neutral alcoholic product to which you could add some other colouring and flavouring, so you have another type of drink but you are using cider as the alcoholic base and getting a tax-free ride.

CHAIR—Surely one of the reasons people drink it is that they like the apple taste?

Mr Broderick—Not necessarily. The reason most people probably drink it is that you can get drunker quicker and cheaper.

Senator SHERRY—Unfortunately, there is a segment of the market that takes that attitude.

CHAIR—There may be some people who set out to get drunker quicker and cheaper, unfortunately. Maybe they just like to whistle and bust the bottles.

Mr Ryan—In terms of explaining the table, there are three products—the West Coast Cooler and the two beers, Carlton Cold and Fosters Light—for which there is a number in brackets in the national average column. In terms of the price of a bottle of Carlton Cold, if you bought a case of it and then you took one out, the price would be a \$1.06. But if you just went into a bottle shop and bought one, it would cost you \$2.20. So we have worked the comparative numbers in relation to beer and the West Coast Cooler on the price that you would pay for one bottle.

By way of summary, we strongly support the government’s proposals, particularly in this ready-to-drink area, and we strongly support the inclusion of cider in that under 10 per cent grouping. We would prefer to see these products get the benefit of the 1.4 per cent threshold at the bottom. We would prefer to see brandy taxed at the full spirits rate. Our position is that there should be a phased introduction of a volumetric tax on wine at a rate that would recover the amounts of revenue the government has forecast to collect under the WET, and we think that should be within the structure of the WET tax. We are not putting the proposition that wine should be subject to excise duty; we are saying that the WET tax should go ahead and apply—the only difference would be the manner in which it was calculated.

CHAIR—Is that the presentation, Mr Broderick?

Mr Broderick—Yes, it is.

CHAIR—Thank you.

Senator CONROY—Do we need a motion to accept the submission, including the exhibits?

Mr Broderick—We are happy to leave the bottles if you would find them useful.

Senator CONROY—We will need a motion to accept them then.

Senator SHERRY—We will need to test the authenticity of your evidence, and we will make sure it does not get back to Canberra.

Senator CONROY—Particularly the cider.

CHAIR—I intend to vote against the proposition because I want the committee to concentrate on its task. So, just to put it in words of one syllable, do you support the submission made to us yesterday by the Bundaberg Distilling Company about the removal of the differentiation between Bundy Rum and brandy?

Mr Broderick—No, we are saying that we do not believe that that concessional rate should exist—that the rate of brandy should go up. If, however, you—

CHAIR—You do not believe the rate of brandy should go up?

Mr Broderick—We do. We believe that the rate of brandy should go up to the same rate as all other spirits. If, however, you keep the concessional rate for brandy, I believe the Bundaberg argument is that they ought to come down to that rate. That is their submission.

CHAIR—Do you support that?

Mr Broderick—No, we believe that brandy should go up to the rate of all other spirits.

CHAIR—Not that Bundy should come down?

Mr Broderick—No.

CHAIR—You support the Independent Wineries about volumetric tax; that is quite clear from what you have said. In the Perth hearings last Thursday, they introduced a huge panel of medical and health experts, including the Aboriginal Legal Service, in support of their argument on health and social fairness grounds. Your reference here to the Alcohol and Drug Foundation embraces that same point of view, I take it.

Mr Broderick—That is correct.

CHAIR—You see some health spin-off and social fairness by doing that.

Mr Broderick—In the discussions we have had with the Alcohol and Drug Foundation and other people working in the field, they see the cheap price of cask wine as the major problem confronting the community as a consequence of alcohol consumption.

CHAIR—I thought one of the stronger points made by the drug and alcohol people was that Australia is almost unique in the world in that it is a high volume consumer of low alcohol beers. That has beneficial social impacts and that is what they are wanting to encourage.

Mr Broderick—Yes.

CHAIR—Where are you up to in your discussions with the government? Are you in current discussions that are as yet unresolved, or are you not?

Mr Broderick—That is a very hard question to answer. One never knows where one is with the government, to be quite frank. That is not a criticism of the government; it is just hard to get an answer from the government. It is very nebulous.

Since 1974, when I joined the spirits industry, we have been arguing for tax equity on alcohol vis-a-vis spirits. If you were starting a new tax regime on alcohol today—if you had that luxury and you had the proverbial whiteboard—you would have one rate of tax for all forms of alcohol, irrespective of the nature of its manufacture or its base product. What we have been proposing to the current government is a move towards that. Our current talks with members of the government are to ensure that they move the policy as they have proposed.

CHAIR—I understand what you are saying, Mr Broderick. You are talking about the merit of your case; I am really asking a question on process. Are you in discussions with the Treasurer or the Assistant Treasurer about this matter now, or are those discussions not current?

Mr Broderick—We have not had a meeting with the Treasurer or the Assistant Treasurer on this issue of recent times.

CHAIR—Are you seeking one?

Mr Broderick—Yes, we are.

CHAIR—The reason I ask is simple: we have to vote on these bills within a couple of months probably. You are putting a case to us, and I must say that I think your case is strengthened if you are able to persuade the government to make the change or if you are taking initiatives to persuade the government to make the change, rather than simply calling upon the Senate.

Mr Broderick—I understand your question now that you have explained it in those terms. I can assure you that we are using our best endeavours to have the government implement the program of alcohol tax as they have announced it. We are very pleased that the Senate decided to hold these hearings. It gives us one more opportunity to air our case,

but we are certainly not resting on these representations today as the basis of persuading the government to implement the tax policy as announced.

CHAIR—Can you assure me on this point: do you currently have a request before the government to meet them in order to try to persuade them to your point of view?

Mr Broderick—I do not have a formal request before the government at the moment. I am in discussions with them to arrange a meeting with the Treasurer in July.

CHAIR—Thank you very much. Senator Gibson.

Senator GIBSON—I am pleased to hear you saying that you are pleased with the government's ANTS package and its moves to rationalise, if you like, the mess that currently exists with the tax on alcohol. The government has moved a long way.

You made a point about the difference between brandy and other spirits. I would confirm—and I think you do understand—that the government has lessened the difference between those two. Noting what is on page 88 of the ANTS document, the tax difference is lessening by almost \$2 a bottle.

Mr Broderick—Sure.

Senator GIBSON—On a more general note, this package is about income tax, getting rid of 10 indirect taxes, as well as the GST. It also modifies the excise on fuels, so it is changing the cost structure for the transport industry. The \$13 billion of income tax cuts will give the average weekly earner \$50 a week extra pay. What proportion of that would you expect to be spent in your industry?

Mr Livingstone—We have not determined that precisely, but my estimate would be around the three to four per cent mark.

Senator HARRADINE—People are going to drink three to four per cent more, are they?

Mr Livingstone—No. The cost of alcohol to them going forward will be more expensive.

Mr Broderick—By three or four per cent.

Mr Livingstone—By about three or four per cent. We do not think they will be drinking any more. But we are saying that in the package trade, in the off-premise area, basically there is no change to price on full strength bottled product. There will be a reduction on the medium strength product.

Senator HARRADINE—I understand that, but that does not answer the question that I believe Senator Gibson asked you.

Mr Livingstone—Then on the other side, in the on-premise area, they will be paying considerably more for the product.

Senator GIBSON—What I was on about was that people will have more disposable income in their pockets. Would you expect some of that disposable income to be spent on alcohol products?

Mr Livingstone—Yes, because it will be more expensive to buy alcohol products post GST than it is now. So they will not be drinking more, they will just be paying more for what they will be drinking in the future—if I understand the question correctly.

Mr Broderick—We do not expect an increase in the consumption of alcohol as a consequence of the proposed package.

Senator GIBSON—I am a bit confused with Mr Livingstone having said that, for bulk products, the prices basically stay the same.

Mr Livingstone—Yes.

Senator GIBSON—Are you suggesting that in the aggregate, because some of the prices will go up marginally, the total consumption will stay about the same.

Mr Livingstone—Yes. The main change in price will be with product purchased across the bar, where the GST will apply to the service component as well as to the goods component. People buying across the bar will be paying considerably more. One of our proposals is that that should not be.

The proposal from the government at the moment is that excise will be adjusted such that the price in the bottle shop will not change. Our argument is that the price should be adjusted such that the average price of alcohol generally, both from the bottle shop and across the bar, should be the same, because there will be a considerable increase in the overall tax taken from spirits going forward.

Senator WOODLEY—Chair, my apologies to the committee for being late; the dentist kept me this morning. I certainly will catch up shortly.

CHAIR—Thank you.

Senator SHERRY—I just go back to the issue of the taxation of the service component. I assume that, if alcohol is sold across a bar in a club or a hotel, or sold at a table in a restaurant, the GST magnifies the impact because of the cost of labour in the hospitality industry.

Mr Livingstone—Yes, that is correct.

Senator SHERRY—Just so that you understand, I am not condemning the cost of labour, the fact is that that effectively is taxed by a GST.

Mr Broderick—Yes.

Mr Livingstone—Yes. The rough numbers are that, if you buy a nip of spirits from a bottle shop, you pay about a dollar. If you buy that same nip across a bar, you pay something like \$3. So the GST component on a differential of \$2 is adding about 20c.

Senator SHERRY—As a result of this package, what do you estimate will be the price increase across a bar?

Mr Livingstone—It will be 10 per cent, because the base tax component that is paid at the moment across the bar will not change; that is to be equalised.

Senator SHERRY—You say that, as a consequence of this package, there will be an average increase of alcohol across the bar by 10 per cent.

Mr Livingstone—Yes.

Mr Ryan—I would add that we would need to qualify that, to the extent that there are business cost savings that are passed down the supply chain. I do not think we should take the 10 literally. The 10 indicates that there will be a 10 per cent GST.

Senator SHERRY—It is likely to be in a range of seven to eight, nine.

Mr Livingstone—Precisely.

Mr Broderick—Of that order, yes.

Mr Livingstone—Also it will vary depending upon the particular product are you buying across the bar, whether beer, spirits or wine.

Senator SHERRY—I certainly do not think that is understood by the punters out there in the broader community.

CHAIR—And in the pubs, clubs and bottle shops.

Senator SHERRY—I assume that would have an impact on employment, but that would not be something you would have details on, I assume.

Mr Broderick—No, we do not.

Senator SHERRY—Going back to the wine industry, table 2, 'Wine imports for home consumption'. A very substantial increase in wine imports is shown there. You have highlighted that the majority of that or the largest import component is from Spain. You have said that goes into cask wine. I have to say that, when I drink the odd glass of cask wine, it is never readily apparent that a proportion of the product comes from Spain. Why is that?

Mr Livingstone—I am not exactly sure. I suspect that, because the majority of the product in the cask is still coming from Australia—

Mr Broderick—It would be a mixture, yes, a cocktail of wine.

Mr Livingstone—you are able to declare it as Australian. It would be printed on it as being Australian.

CHAIR—It might be that the label on the cask ‘Made in Australia’ refers to the cask.

Mr Broderick—You are saying that the cardboard might be the only component that is Australian.

Senator SHERRY—The cardboard is more valuable than the wine.

Senator WOODLEY—That relates to the labelling laws.

Mr Ryan—We discussed this at length last night amongst ourselves. We asked exactly the same question: why is it that the labelling laws—

CHAIR—It is a labelling laws problem.

Mr Ryan—It seems to us to be a labelling laws issue. We understand that some of the products we are aware of do identify the source of alcohol when it has come from overseas countries. I am not talking about some casks—but with casks, we do not see it.

Senator SHERRY—I understand the importance of labelling laws, but that was not what I was going to lead into. What seems to me to be happening is that, as our exports of wine go up, we concentrate more and more on the medium to higher value. Because of a shortage at the lower end of the market, if you like, we import the bulk cheap wine as a substitute, while still labelling it and passing it off as Australian. Effectively, that is what seems to be happening. Do you agree?

Mr Broderick—Yes.

Mr Livingstone—Yes, we do agree.

Senator SHERRY—Who are the major beneficiaries of this import substitution? Are they the major wine companies?

Mr Broderick—It would be, yes; it would be the major manufacturers of cask wine.

Senator SHERRY—So, effectively, what they are doing is having their cake and eating it. Obviously, they are moving as much production into higher value, medium-higher price products as they can, importing wine from Spain and Italy—

Mr Broderick—Cheaply.

Senator SHERRY—passing it off as Australian, effectively, and doing it on the cheap in order to maximise their profit. Obviously this is legal, but it is an interesting change in the industry’s direction.

Mr Broderick—We would agree with you.

Senator SHERRY—In Adelaide, a representative of the Winemakers Federation—whose name I cannot recall—argued for the retention of the current tax treatment of wine. I am not quoting him, but one of his arguments was that wine was drunk with food.

CHAIR—Mr Crozer.

Senator SHERRY—Mr Crozer, yes. Wine was drunk with food and, therefore, it was not as prone to abuse. There was certainly a counter point put about the unfortunate level of alcohol abuse, particularly with cask wine, by some in the Aboriginal community.

Mr Broderick—Yes.

Senator SHERRY—What do you think of the validity of that argument? Do you believe that the community somehow treats wine differently and that, therefore, it should be taxed differently because of its particular ambience—I suppose that was the point that was being made—and the fact that it is consumed with food? This was put to us very strongly.

Mr Broderick—It would have been, because it is a common position that the Winemakers Federation hold. They would like us to believe that wine is only consumed at the dinner table by sensible, sophisticated people. But that is not what the statistics show. It is not what the Alcohol and Drug Foundation believe. The vast majority of wine is not consumed with food; it is consumed as a beverage and from the cask; and there is no reason to have it treated differently from a tax point of view. There is no reason why the consumers of spirits and beer should be subsidising the wine industry which is, in fact, what we are doing now.

Senator SHERRY—The wine industry is split. The Winemakers Federation argue that they are not split. The Winemakers Federation are putting a position of no change to the volumetric tax but, certainly, from the feedback we have had, there is a very sharp difference of view. I think there is probably a growing difference in the wine industry itself. I do not know what the percentages are—it is difficult to work it out—but there is a significant view in the wine industry that differs from the Winemakers Federation's official position about not moving to volumetric. Do you have any view about why that is so?

Mr Broderick—The Winemakers Federation is probably dominated by the three major wine producing companies who are predominantly the major manufacturers of cask wine in Australia. They would have the greatest degree of influence on the Winemakers Federation of Australia policy. As you have, one hears from the average winemaker their consternation that their product is so highly taxed. The smaller winemakers do not have the benefit of an economy of scale that the large wine companies have. As a consequence, their wholesale price per case of wine has to be higher and, with an ad valorem tax, they pay much more.

Senator SHERRY—I have had very strong representations from the Tasmanian wine industry, for example—although it is not just in Tasmania; it is tending to be the smaller to medium-sized wineries that are low volume by comparison with the big companies, with high value bottled products consumed domestically and no cask production at all, or very

little. These are the majority of producers and I am puzzled as to why, when they have got the numbers in terms of voting power, the official Winemakers Federation position is one of no switch to volumetric tax. Have you any information on this?

Mr Broderick—They have quite a strange collegiate voting procedure within the Winemakers Federation which makes it very difficult for those sorts of winemakers to have their opinion translated into policy.

Senator SHERRY—Okay, thanks.

Mr Livingstone—One more point about the split you are talking about is that it is broadening. In recent times, consumers in Australia have been demonstrating a preparedness to pay more for quality wine. If we think back a few years ago, there were not too many bottles of wine in a bottle shop over \$10, where today there are many of them. The further that move occurs, the more heavily taxed this top end wine is going to be, because of the current tax arrangement. And so, while we talk about the spirits industry subsidising the cask business, in fact, premium wines are doing exactly the same. They are subsidising the cask business as well.

Senator GIBSON—Following Senator Sherry's query about the prices going up in hotel bars and bottle shops, I would point out to you that in the ANTS package the cost of beer and malt is estimated to go down by 3.6 per cent. There is also a retail trade where costs will go down by 2.9 per cent. There are a lot of embedded indirect taxes in the system which people in the industry are currently paying which will come off, so your costs will come down. The claim we had before about 10 per cent really does not apply.

Mr Ryan—I think we corrected that.

Senator GIBSON—Yes, you did, Warwick. But I just wanted to make sure, as I could quote you some figures from the document.

Senator SHERRY—The price effects on page 170 show an increase in the price of beer and malt of 3.3 per cent.

Mr Ryan—Of course, that would be an average across off-premise and on-premise.

Senator SHERRY—And it may be magnified by the labour content, depending on the labour content in a particular retail operation.

CHAIR—What is the answer to the straight question? How much will it go up by?

Mr Livingstone—I will just go back to Senator Gibson's question. We fully acknowledge that there will be savings in production costs, but we need to remember that the major cost component of spirits is tax. About 80 per cent of the cost is tax, which will not change. So the two or three per cent we are speaking of relate only to the 20 per cent actual cost of goods component. So it is about three per cent of 20 per cent, which is less than one per cent. It will still be very close to 10 per cent of the off-trade. It will be closer to nine than it will be to eight.

CHAIR—Can you just answer this question for me as a straight out punter? How much will the price of your products go up as a consequence of these tax changes?

Mr Livingstone—In the off-premise area, they will not go up at all. There might be a slight reduction in the off-premise area. In the on-premise area, across the bar it will be in the order of eight to nine per cent.

Senator GIBSON—And the average punter will have an extra \$50 in his pocket per week?

Mr Livingstone—That is correct.

CHAIR—That is an interesting point. The average punter will have an extra \$50 in his pocket, but the government knows that it will claw back eight to 10 per cent of that.

Senator SHERRY—Tax revenue.

CHAIR—So what we have from the government is probably about the most honest advertising you can have. They tell you the gross advantage of the tax cuts, not the net advantage, after you have to pay the extra costs that this tax will impose. But that is another matter, and that is something for the committee to debate. This concludes this part of the hearing. Thank you very much, gentlemen, for aiding our inquiry in the manner that you have this morning.

Mr Broderick—May I reiterate my chairman's opening remark and thank you very much for allowing us to appear. We do realise you had 1,600 submissions and had very few personal appearances. Thank you, and thank you for the courtesy this morning.

[10.03 a.m.]

CAMPBELL, Councillor John Holt, President, Australian Local Government Association

NETTLE, Mr Rodney Alan, Chief Executive Officer, Australian Local Government Association

CHAIR—For the record, I indicate that Senator Sue Mackay will replace Senator Nick Sherry for the submission of the Australian Local Government Association. I welcome the representatives from the Australian Local Government Association. The normal procedure is we invite you, if you would be kind enough, to address us briefly with an overview of your submission and to then be available for questions from the committee.

Councillor Campbell—I would like to thank the committee for making themselves available to hear us. I would like to make it clear that I am here today speaking on behalf of the Australian Local Government Association. The ALGA represents all state and territory associations, and the views we have presented have been endorsed by all of those state and territory associations which represent the 705 councils across Australia. This is our first major opportunity to get into the detail and present a detailed submission, and we appreciate that.

We would also like to record our thanks to the government in their preparation of their GST legislation that general rates and some of the service charges—water, sewerage and garbage, and we have received an undertaking regarding regulatory charges—would be GST free, but there are still some outstanding concerns. First of all, we would like to say that we want recognition basically as a level of government. The states have received a wide degree of consultation and been involved in negotiations. We are currently exempt of sales tax, like state governments, in our major core operations. We believe that that should be taken into account.

However, given what I have said, our major concerns about the current package are the transfer to the states of the responsibility for direct funding of financial assistance grants to local government and, basically, going away from the Commonwealth having a contribution and a responsibility for national standards of local services. There is a real risk of unfavourable treatment of local government at the hands of some states in the future.

Also, there has been a lack of attention to future adequacy of local government means to meet increased demand and need for local services. We note that the states, as a result of the rearrangements, are going to get a growth tax. There is no proposal here for our fair share of a growth tax coming to local government.

What we are concerned about in this package is that it would appear that there is a good chance that inappropriate taxation of regulatory services will apply. Certainly, it would be the case that services that are provided purely for community service obligations—where basically subsidised community services with nominal charges and charges that are less than 50 per cent of the cost of providing those services—are going to be subject to a GST, which we see as contrary to what has happened to charities.

Also there is the issue of the cost of administrative compliance, especially for those nominal charges I just referred to. We are very concerned at those impacts on local government. We have not been treated the same way as small business, who are going to get assistance in meeting those administrative charges that are estimated at varying between seven per cent and 25 per cent. Also, we are concerned about the adequacy of funding for roads, and the changes and arrangements will have an impact on local government, that is responsible for maintaining 80 per cent of the road network in Australia.

I would just like to note that a lot of the background for our detailed submission has been based on information provided by PricewaterhouseCoopers, who have certified the statements that we make here about the possible impacts and where there are gaps in the legislation. So thank you very much, and I am happy to answer any questions.

CHAIR—Is it your intention to invite Mr Nettle to supplement your remarks, or shall we go straight to questions?

Mr Nettle—Go straight to questions.

Councillor Campbell—We are here to assist with questions on technical aspects.

CHAIR—We are reasonably familiar with this argument, because we have had submissions put to us from local government in Adelaide. Then the mayor of Kalgoorlie made a cameo appearance in the golden city of Kalgoorlie, and we have had views put to us by their worships the lord mayors of capital cities. But let me ask you the ritual question that I have put to all of those.

You have raised objections to this package of two types: the revenue sharing one, the six per cent objection; and the fact that it will impose higher costs on some of the services you provide to ratepayers, squeezing your budget and leaving you faced with the prospect of either hiking rates, cutting labour or reducing services in order to meet your budgetary requirements. That seems to me to be the two issues that are basically the argument.

What are you putting to the Senate? If the questions that you have raised are not met by the government in any negotiations you might have with them, are you asking us to reject the tax measures that are before us on the basis that your reasons for wanting satisfaction are so compelling, or are you asking us not to?

Councillor Campbell—We, as an association, accept that it is the national parliament's responsibility for the taxation system, and we do not suggest that we have all the answers for the taxation system. What we are saying is that in the current package there are a lot of questions and we would seek changes by way of amendment, and clarification. We do not see the taxation package; the legislation is not currently available.

We are concerned about what may or may not be there and the way in which various regulatory mechanisms that are in the system will be applied. There is a whole range of concerns that we believe should be fixed either by appropriate undertakings or ironclad guarantees by the government or by amendments to the legislation.

Regarding the GST, we do not have a principle position one way or the other. The association has said that it is up to the national parliament to determine the appropriate taxation mix. But we demand the right to be heard and to express our concerns about its impact on local communities to whom we are the providers of such a major, significant level of service.

CHAIR—If I may ask: when are you next meeting with the government; and when do you expect the circumstances you are putting to be settled with a yea, a nay or a compromise?

Councillor Campbell—How long is a piece of string? But we are having a meeting on 12 March with representatives of the government and Treasury to go through details. We have been offered the continuous ability to make representations through the minister for local government of which we have availed ourselves. How that will end and our expectation of getting responses are beyond our control. But we will continue to raise those issues until the death.

CHAIR—Is it your expectation though that at that meeting in March you will settle this matter with the government, or is it just another meeting in a series of continuous consultation? The reason I ask this is that we will have to vote on this fairly quickly. I just want to be very careful about where your representations are up to and whether or not you have been treated properly, in order that we might decide where we go in our report to the chamber on what the issues are.

Councillor Campbell—I must express frustration on our behalf about being able to get to the people who make the final decisions about the legislation. We have certainly had access through the local government minister to make submissions, but we get the feeling that we are not getting to the people directly. We would have liked to have had that opportunity. We do not know whether we will be getting the satisfaction we require. It is hard to predict.

CHAIR—I would just say that I am not trying to work out satisfaction at this stage; I am trying to work out when there will be an answer, yes or no. That is the point.

Councillor Campbell—I do not know.

Mr Nettle—I think probably the best thing we can do is, when you get the legislation into the Senate, ask that you give us a ring and say, ‘Are you happy with it now?’ It will be that sort of a process. We are here before the Senate inquiry to say, ‘Look, we weren’t involved in the development of the legislation. A draft of the legislation is out now. Here is our problem with that draft.’

We are going back to Treasury and the minister on 12 March. We will be making further submissions from there. We hope as much as you do that, by the time the legislation hits the Senate, it is in a workable order. It is not in a workable order now, which is why we are here today.

CHAIR—I think you are telling me that you are fearful of getting the run-around. Is that right?

Councillor Campbell—We are fearful that our concerns will not be met, that is for sure, because we have not received full satisfaction as to our concerns so far.

CHAIR—You want us to reflect in our report to the Senate that you want changes made to the bills in the manner in which you have put.

Councillor Campbell—Yes, definitely.

Senator HARRADINE—Yes, but how; and what is your definition of an ‘ironclad guarantee’ that you are asking for?

Councillor Campbell—Legislative guarantees. We would prefer legislation as opposed to undertakings. There have been a number of situations previously in which we have been given undertakings about financial assistance grants, and they have been reneged on. So we would prefer that those undertakings were made clear in legislation.

Senator O’CHEE—Councillor Campbell, your belief is that an operation run by local governments and for which they do not charge the full price should be treated like a charity. Is that correct?

Councillor Campbell—We think the same rules should apply as are applied to charities with 50 per cent. If it is less than 50 per cent of the full cost, yes, that is a good enough approximation of the fact that they are being provided as community services as opposed to commercial operations.

Senator O’CHEE—Not every community service is a charity.

Councillor Campbell—No, but it is in response to a community demand. Also, the fact that we have to subsidise it usually results from the fact that it is not commercially viable to provide that service, and it requires us.

Senator O’CHEE—Sporting clubs provide community services, but they are not charities.

Councillor Campbell—Yes, that is right.

Senator O’CHEE—So don’t you see a distinction between a community service and a charity?

Councillor Campbell—There is a distinction, but there are a lot of similarities also. One of the similarities is that we are not providing it for profit; we are providing it as a community service.

Senator O’CHEE—What is the definition of ‘a charity’ in Commonwealth legislation?

Councillor Campbell—I would have to bend to someone else's definition; I am not a lawyer.

Senator O'CHEE—It is just that if you say you should be treated like a charity, then surely you should meet the criteria of a charity.

Councillor Campbell—No, I am saying that there are similar arguments. That is, ours is a not-for-profit operation, not for commercial benefit; it is for public benefit and it is in response to the needs of the community.

Senator O'CHEE—But you said that you should be treated like a charity. If you want to be treated like a charity, you should meet the same criteria as a charity. If do you not, you fall into the same category as sporting clubs, don't you?

Councillor Campbell—No, I totally disagree. I am not saying that we should be rated in the same way as a charity; I am saying that, just as charities are not for commercial profit, we have provided these services as a community service. So, just as charities are not there for commercial profit and have a greater good, we are there for a community service also.

Senator O'CHEE—But you are saying that you want your notionally charged activities to have the same tax treatment as charities; yet you admit that they are not charities, and you cannot tell us what the definition of 'a charity' is but you know that you do not meet the criteria.

Councillor Campbell—We just seek implementation of the undertaking that we were given before the election by Mr Crosby, on behalf of the Liberal Party, that stated that nominal charges would not be subject to a GST. We are simply asking for that undertaking—

CHAIR—What did he say?

Senator O'CHEE—Mr Chairman, can I ask the question without interruption?

CHAIR—You can. I just asked the witness: what did Mr Lynton Crosby say?

Senator O'CHEE—That constitutes an interruption, Mr Chairman.

CHAIR—Yes, well, I have just asked the question: what did Mr Lynton Crosby say?

Councillor Campbell—Mr Chairman, he said that those services that provide a nominal charge will not be subject to a GST.

CHAIR—Thank you, I heard you correctly.

Senator O'CHEE—Mr Crosby is not the Prime Minister, no.

Councillor Campbell—No, he was writing in response to a letter to the Prime Minister on the Prime Minister's behalf.

Senator CONROY—He actually wrote back in response to a letter to the Prime Minister?

Councillor Campbell—Yes.

Senator O'CHEE—Mr Chairman, am I going to have any rulings from the chair to stop interruptions?

CHAIR—You are. Senator O'Chee, please proceed.

Senator O'CHEE—Thank you. You will have to understand, Mr Campbell, that I am just trying to get the intellectual basis on which you are arguing these things. You say that you are not a charity but that you want to be treated like a charity because you believe you are doing a public service. But won't we then have every sporting club and every other group of people who say they do a public service saying, 'Well, look, if local government can get this tax treatment, why shouldn't we?'

Councillor Campbell—No. We say that we are exactly the same as state governments, who do not get subject to a GST. We believe that we are a level of government and we are significantly different from any of those other private organisations. We are a level of government and, before the election, we were told that there would be no net effect on us; therefore, we are different.

Senator O'CHEE—But on your governmental services, as a level of government, you are not subject to GST. It is a completely different intellectual argument to say that you are a level of government to then go on to say, 'Look, on the services that we provide,' which you admit are non-governmental—

Councillor Campbell—No, I do not admit that. By virtue of the fact that they are community services, they are government, just as state provided services that are not charging a commercial fee are not subject to a GST.

Senator O'CHEE—So, if you had a child-care service, for example, and you did not cover the whole cost, you are saying that you should not have to charge a GST.

Councillor Campbell—Yes. We say that we have a situation where the services provided by local government across Australia vary. In some areas you will have a market; in other areas the only reason that service will be provided will be because of that subsidy from local government. It then becomes a difficulty as to how you write the Tax Act to cover that situation. Do you say that, because some of them are running those services in competition, you therefore provide a GST even on those providing those services only as a community service obligation?

There are two ways of approaching it. The capital city lord mayors have said to do it on a national competition basis, where you take into account whether you are in a competitive environment. We are saying that would be too difficult to do. You have to basically do it on an activity basis; describing the activities and then covering all of them. You will have problems where, in some areas, you will have a market and there will be competition, and in

other areas of Australia, particularly rural and remote Australia, the only reason that service is provided is because there is a subsidy by the local council.

Senator O'CHEE—But on your activity test, for example, in Cairns, where the council operates some child-care services, they would not have to charge GST, notwithstanding the fact that the private sector child-care providers do. Do you think that the private sector child-care providers would think that was terribly fair?

Councillor Campbell—They probably would not think it was fair. If you are devolving legislation, we are saying you should cover those child-care facilities out west of the Great Divide—a whole range of areas—where it is a community service obligation. Maybe you would then want to have another test where perhaps there could be consideration of where there is a market and where there is competition. Our concern is where those services are provided as a community service and there is not a market. We therefore should be protecting them, and not having a tax on a community service.

Senator O'CHEE—The problem with this is that, when you decide to do things, you decide to provide the service; we do not. So you could provide, for example, a child-care centre or a caravan park, and merely by virtue of the fact that you choose to provide it—

Councillor Campbell—The ratepayers would decide it.

Senator O'CHEE—You are saying that that is a community service.

Councillor Campbell—Yes, and we are democratically responsible to our voters, just like any state government that provides a service.

CHAIR—Or any federal government.

Councillor Campbell—Or the federal government.

Senator O'CHEE—Mr Chairman, can I please have the answer from the witness without prompting from you?

CHAIR—Please proceed, Senator O'Chee.

Senator O'CHEE—I assume you are ruling against yourself, Mr Chairman.

CHAIR—I am asking you to proceed.

Senator O'CHEE—Mr Campbell, what I am saying to you is, the only definition you are providing of community service is what the council chooses to provide. Why should, for example, a caravan park be a community service when a private sector operator may well choose to put a caravan park there? Maybe a private sector operator cannot develop a caravan park because the council is already running one.

Councillor Campbell—Of course, we are also subject to ACCC rulings and we cannot involve ourselves in anti-competitive behaviour. So we are already covered by that. So we

cannot act anti-competitively. Certainly, the point is that—and this is a problem with this legislation that we are pointing out—if you want to cover those services that are provided as a community service and if you want to impose a GST on them, fine; make that clear.

What we are saying is that there is a whole range of community services. We received an undertaking before the election. Therefore, we did not raise it as an issue leading up to the election, because we understood and we had that clear commitment to us in writing that those nominal charges would not be subject to a GST. So we are just simply saying, ‘Okay, that issue was discussed. We want it implemented.’

There is a complication that you point out, that with some of those activities there may be competition. What we are saying is that the way you do it is to exempt them, and perhaps if it is competitive that could be an overlaying provision; not simply saying that, because one council in Australia might provide a service that is in competition, the rest of the 705 councils have a situation where a GST is applied to that service. That would be crazy.

Senator O’CHEE—That is not the proposition I am putting you, Councillor Campbell.

Senator CONROY—I am putting an alternative to you.

Senator O’CHEE—What I am saying to you—and maybe you are getting distracted by the interjections from the other end of the table—is that you cannot give me a definition of community service other than whatever the council chooses to provide.

Mr Nettle—I think I might be able to help you there. On page 27 we actually had a go at that. We have listed there the activities which were regulatory or licensing activities and what activities were community service activities. Let me look through that list. These are the things that we know in some councils are provided as community services because the private sector cannot or will not supply them—generally cannot is close to the point.

And we said, ‘How do we solve this problem?’ Do we have an opt-in system or an opt-out system? Do we make everything taxable and then go to 705 councils and say, ‘Come back and try to get out of paying it. Apply to the Treasury to be exempted in your own right because you are actually providing a community service,’ or do we take them all out and leave it up to Treasury to come back to individual local governments and say, ‘You are running that service as a commercial operation. You are in competition with somebody?’ But I appreciate your point: it is very hard to do. We had a stab at it and said, ‘We know these things are done purely as community services with no competition. Nobody else would do them if the local government did not, in some areas.’

Senator O’CHEE—But, Mr Nettle, I have looked down the list, and basically you are arguing the inverse of what Councillor Campbell suggested I should be arguing. You are saying that, provided there is some council somewhere in Australia that might provide a service because nobody else will, it should be treated as a community service all the way across the country. For an example, just look through the list—we have got things like aged and disabled housing, child-care centres, dental clinics, health centres and parking meters. Parking meters are not a community service—some people would say they are a community curse.

Mr Nettle—It is a bit of a toss-up as to whether it is regulatory or a community service.

Senator O'CHEE—For example, if I parked my car out here on the street with Councillor Campbell's mate Councillor Soorley, it would be a commercial operation. Why should a council parking station or a council parking—

Councillor Campbell—It clearly is a regulatory role to stop congestion in the city.

Senator O'CHEE—Councillor Campbell, just across the street is a massive car park run in competition with the private sector. It is not a regulatory activity; it is a business.

Councillor Campbell—On-street parking, which you were referring to, is a regulatory role—not the provision of off-street parking, which is commercial and can be competitive. So on-street parking is different and is a regulatory process; off-street parking could be argued to be commercial.

Senator O'CHEE—Councillor Campbell, if on-street parking was purely regulatory you would merely say, 'You can park free for up to X number of hours.' You would not charge them the money. I do not think any of the ratepayers believe that parking meters are a regulatory device; they know that it is a means of making money. We are not that silly, with respect.

Councillor Campbell—It subsidises road making and a whole lot of—

Senator O'CHEE—It is a revenue measure. It is a way of making money.

Councillor Campbell—If you did not have it there would be total congestion in the city and the city would close down, so it is a regulatory role, and anybody who has got any background in the way you run cities knows that you have to have that control otherwise the city clogs up.

Senator O'CHEE—You can have the control without making large amounts of money from it. If it is a purely regulatory function you do not have to make money out of it.

Councillor Campbell—There is a significant regulatory component.

Senator O'CHEE—Yes, but you to have to make money out of it. If you wanted to regulate it, you could say, 'You can park here for two hours for free,' and then fine them if they did not.

Mr Nettle—Senator, what is your view then? We have been battling with this ourselves, trying to work out a way to distinguish between these things which are regulatory or community services and those things that are commercial activities. You seem to have a clearer idea of what is and what is not.

Senator O'CHEE—Councillor Campbell's argument was, 'We are a level of government,' and the government has said, 'On your governmental functions—like water, rates, sewage and so on—there will not be any GST, but on the others you are going to be

subject of the same rules that apply to everybody else,' and that does not seem to be terribly unfair. I just put another question to you: Councillor Campbell, what is the total diesel fuel bill for local governments in Australia?

Councillor Campbell—Off the top of my head, I do not have that. It would be a significant amount. Queensland probably contributes the highest level of fuel tax because of the greater range of activities, and it is quite significant. I do not have that figure, but we can provide that.

Mr Nettle—The cost saving to local government was listed as something like \$18 million, I think, from the change in the diesel fuel tax.

Senator O'CHEE—In Queensland?

Mr Nettle—No, in Australia. It was from the reduction in the tax on diesel fuel for vehicles used by local government. But they are fairly wild and woolly figures.

Senator O'CHEE—Maybe you will be kind enough to take on notice the level of saving. I know that under the equivalency test you also apply notional costings for other things for which you are wholesale sales tax exempt.

Councillor Campbell—Yes.

Senator O'CHEE—Now we are not imposing any tax because, of course, you will still get all your GST back on all of your inputs.

Councillor Campbell—For those that are GST free, yes.

Senator O'CHEE—For all of your inputs.

Councillor Campbell—Yes, but for those that go towards our general rates, water and so on.

Senator O'CHEE—And for your commercial activities, the GST is refunded in full because it is an input cost.

Councillor Campbell—Not for all our commercial activities, but for water, sewerage and garbage.

Senator O'CHEE—If it is a commercial activity, you get all of the GST refunded in full.

Mr Nettle—Yes.

Senator O'CHEE—Mr Nettle agrees.

Councillor Campbell—Yes, on inputs.

Senator O'CHEE—Exactly. So maybe you can take on notice what is the notional saving under the equivalency test that you make through the abolition of the requirement to account for that wholesale sales tax.

Mr Nettle—We can take that on notice.

Senator O'CHEE—Obviously there is a saving there because you do not have to account for it under the equivalency test. There is a notional saving and I would be interested to know how big that is.

Senator WOODLEY—I wanted to pick up that last point from Senator O'Chee and just check. You do not pay sales tax, say, on buying heavy equipment, et cetera; however, under the new legislation you would pay a GST on that heavy equipment and then it would be refunded?

Councillor Campbell—It depends what the heavy equipment is. Inputs, yes, and then we would claim back the input charges if it is for road making, which would primarily be funded out of general rates. We would have to bear the cost if it were for commercial activities that were subject to a GST.

Senator WOODLEY—Now if you buy that equipment and it is sales tax free, it is simply sales tax free. Is there any problem with paying a GST and then having to get a refund? Do you see any problem with the delay? Whereas previously you did not pay it at all, there is now a delay in getting the refund. Have you done any calculations on that issue?

Councillor Campbell—We did some initial work, but we do not have that in the submission, and we can get some figures. There certainly is a concern about the cashflow, but we have had discussions with the government and we have been assured that there will be an improvement in the situation where we would not be suffering as great a delay. So we will try to provide some information on the details on the total impact.

Senator WOODLEY—That would be helpful. It has been asked in a lot of places by a lot of other people too, such as farmers.

Mr Nettle—I think, Senator, it probably comes down to how fast the government sends your money back.

Senator WOODLEY—I guess it is how close to the three months you buy the equipment too.

Councillor Campbell—That is right. So it will have a cashflow effect and how that is quantified we do not have to hand at the moment.

Senator WOODLEY—Coming back to community service organisations and again the conversation with Senator O'Chee, I can get an overview of the kinds of services you are talking about and some of the problems which you see. Charities, of course, have a number of problems such as salary packaging and what the removal of the fringe benefit tax

exemption would do to them. I presume compliance costs are a general issue for you anyway. But, for instance, is there still a Lord Mayors' Community Benefit Fund?

Councillor Campbell—Yes, certainly.

Senator WOODLEY—Is it a concern that that will attract a GST if it is over \$100,000?

Councillor Campbell—Yes, that is exactly the same argument that charities would have.

Senator WOODLEY—So you would make the argument there particularly on behalf of that fund?

Councillor Campbell—Yes, they would have the exact same problems as any of the charities.

Senator WOODLEY—Just following up the remote area issue for remote area councils, Aurukun and Mornington Island, for example, are local councils, aren't they?

Councillor Campbell—Yes.

Senator WOODLEY—Are they members of the Local Government Association?

Councillor Campbell—We have not got every single member of the communities, but I think the Local Government Association of Queensland has the majority. I am not 100 per cent sure whether those two are affiliated, I am sorry.

Senator WOODLEY—That is all right. The reason I asked that is that James Cook University have done some calculations on the effect of the tax changes on remote communities, but they were particularly interested in the Aboriginal communities because of the low income in those communities and any further imposition of costs is going to have a significant effect on those kinds of communities. I just wondered whether you had had any representation from remote communities along those lines?

Mr Nettle—The Local Government Association of the Northern Territory actually has what is called community governments in the territory. There are around 60 of them which are predominantly on Aboriginal lands out there. There are small groups of community governments. Actually the Northern Territory government was helping them pay their membership fee to the Northern Territory Local Government Association just to get them involved at those sorts of levels. They are very aware of those activities. Most of the activity in the community government area is actually road making and the earth moving equipment that goes into that.

Councillor Campbell—In actual fact it is those rural and remote communities that we are most concerned about because, where they provide those services that are listed on page 27, they will be subject to a GST. There is no chance that there is a competitive private sector body keen to provide any of those services.

Mr Nettle—There certainly are not many in Aurukun.

Councillor Campbell—Therefore, they are the areas that would be most impacted by a GST. They are the basis of us saying we should exempt those. Perhaps in those areas where there is a market, you have an overlying process to make them GST-payable. It is those services in those communities that are in most need of protection.

Senator WOODLEY—I would agree with you.

Mr Nettle—As I mentioned before to Senator O’Chee, do we opt in or opt out? Do we put every local government providing a service in the taxable side or do we leave them all out of the taxable side? If we put them all in, then we have 705 governments saying, ‘Look, this isn’t a commercial activity. We are here in a remote community in the Northern Territory. We are going to need people here that are doing it.’ Or do you take them all out and then send the tax office out there to go calling on 705 councils to see which ones are? It is going to be difficult either way.

Senator MACKAY—I want to come back, Councillor Campbell, to your initial comments about the guarantee of the mechanism in terms of local government funding. You would be aware that the government have said that this is the first time, in their view, that there is an actual guarantee of funding in relation to local government. The mechanism that they are talking about is a memorandum of understanding. What is your view in relation to that?

Councillor Campbell—Frankly, local government generally is not happy that a memorandum of understanding would be sufficiently tight to provide that guarantee. We would far prefer some sort of legislative backup to that. We are aware of other memorandums of understandings and motions of COAG, for example, that have similar standing that have not been honoured following on.

Our concern is, if we do have one of the states straying from that memorandum of understanding, will there be political will at the time by the federal government to enforce it, particularly if it is a state government of the same political leaning that is mistreating local government, that is not passing on or that is putting conditions on that passing on of that money, that is reducing or diverting it to particular state ideas that they say fall in the realm of local government and it is appropriate to divert it to and not pass it on to local government? Would they be prepared to take them on? Our concern is that they may not.

It is an indication of basically trying to cut the cord, saying the federal government has historically been involved in this in providing community service and ensuring national standards, whereas the government has said, ‘We think that is a state government role.’ But who is there to ensure that that continuing resource is passed on in an unconditional way to local government?

Senator MACKAY—I am just wondering about the result of this tax package if it is actually implemented the way the government says through a MOU—which is not a guarantee, I will agree with you—and what the future is for local government?

Councillor Campbell—To be frank, from all the feedback we are getting from the state associations and territory associations, and also individual councils, there is a great fear and

concern about their future. Rural and remote councils in particular are dependent on financial assistance grants to provide those services that are, of course, far more costly, and they are very important. In some cases with councils in Queensland, over 50 per cent of their revenue comes from that source. They are very concerned that we are changing the system and that they may end up in a worse situation. We currently have got federal legislation which outlines the process of passing on those grants. Now we are looking at the possibility of a memorandum of understanding replacing that, and we are not comforted about that.

Senator MACKAY—So, from your perspective, it may not be worth the paper it is written on in terms of an undertaking?

Councillor Campbell—Our position is that it is not as good as you could get. It is not as good as legislation. There are better ways of guaranteeing it. It is better than nothing. Certainly we then have got an undertaking—we have got a piece of paper than can be referred to. The problem is enforcing in an MOU.

Senator MACKAY—In relation to the piece of paper argument, you referred earlier to correspondence that had been sent to the Prime Minister. You said that, as a result of that correspondence to the Prime Minister, a response had been received from Lynton Crosby, the Federal Director of the Liberal Party on behalf of the Prime Minister. I am reading from your submission, where you said:

The non-commercial activities of government will be outside the scope of the GST. This means that where a service is provided free of charge or for a nominal charge, the GST will not apply.

What has emerged recently—and you may not be aware of this because it emerged through the estimates process—is that the government is saying that that commitment was wrong in only one respect, and that is the word ‘not’. So, in fact, it should have read: ‘The commercial activities of government will be outside the scope of the GST. This means that where a service is provided free of charge or for a nominal charge, the GST will apply’.

So, wherever local government provides what they regard as a commercial activity—and I must say that we do not regard a service that is subsidised to the tune of 90 per cent as being commercial activity—they are saying that the commitment that they gave was incorrect.

Councillor Campbell—It is not only that they would have to say that it was mistyping and that the word ‘not’ should be removed; the first sentence does not make sense then because it refers to the non-commercial activities of government being outside the scope of the GST. So that also should not have been written. I find that unbelievable.

We responded and accepted this undertaking at face value and, therefore, communicated it to all our councils. We communicated that information. Copies of that letter were sent to every council in New South Wales by the presidents of the associations. It was spread around the country when we received it. It was taken as a letter of comfort that, indeed, those non-commercial services, in our terms—basically, the provision of services with nominal charges—would be GST free. We took it at face value. It was sent around local government all over Australia. If it was a mistake, it should have been drawn to our attention

because it was being widely referred to and distributed, as I said, to every local government in New South Wales and widely distributed around Australia.

That raises the question: what is the basis of undertakings given by political parties before an election? Does that mean we should not accept a response from somebody who presents themselves as speaking on behalf of the Prime Minister or the Leader of the Opposition, whoever it is? It really adds to the concern about the credibility of any undertakings being given. We just do not accept that as an explanation—if what you say is the correct outline.

Senator MACKAY—Yes, and it is on the public record. It is in *Hansard*. That is precisely my point. You have correspondence, and they are not asserting it is a typo; they are saying, ‘No, it’s wrong.’ When that commitment was given, the government said, ‘That is incorrect.’ I am just wondering what you would have said to government—had you known that that commitment was clearly going to be breached so early on in the piece—in relation to the application of GST and in terms of what this government regards as commercial activities. Would that have altered your campaign, for example?

Councillor Campbell—We would have continued to lobby all federal candidates, and particularly coalition candidates, on that issue. When we received that undertaking we backed off, so it did not become an issue with our local governments. I am not saying it would have changed the result of the election, but it certainly would have changed our behaviour. We withdrew on that particular issue because we received what we considered was an undertaking that was to our satisfaction, and we were very pleased to have received it.

Senator MACKAY—So a proposed memorandum of understanding amongst the states probably would give you less comfort in terms of, as we were saying, a commitment that you got from somebody on behalf of the Prime Minister?

Councillor Campbell—We have concerns. A memorandum of understanding may have a different legal meaning—I am not a lawyer, so I would have to receive legal advice—but we do not believe it would be as good as other undertakings, and particularly legislation.

Senator MACKAY—I have a question in relation to the issue of GST being applicable on what the government regards as commercial services. As we heard yesterday, up to 90 per cent of services are cross-subsidised from the rates base. I am aware of a couple of councils which are thinking about dumping the nominal fee—one in particular in relation to swimming pools. It is a rural council. They provide a swimming pool. They charge a nominal fee to assist with running the swimming pool. They do not want it to attract GST because the consumer pays at the end. That is the bottom line here. The people in this town do not want to pay, and they do not have to, as far as this council is concerned, because it is a community service. So this council is actually saying, ‘We will shut the pool every second day and charge nothing.’ That is what they are saying to ensure that their community does not bear the cost of paying GST to go to the local pool.

That is one that I am aware of. Are you aware of any other remedial strategies by local governments? Are the councils looking at increasing their rates? Are the councils looking at putting people off?

Councillor Campbell—All rural and remote councils that provide similar services will have to make those sorts of judgments: is it going to have an impact on the people? It usually affects kids who have not got many alternative recreational pursuits. Those facilities are provided to meet that need. Those from wealthier families might have a swimming pool in the backyard anyway, so it is usually lower socioeconomic areas that are affected. It is provided as a service so, yes, they do not want to increase the charges. There will be a resistance if there are increases in charges. There is always the price elasticity of demand: if there is an increase in price there will probably be a reduction in usage. It affects those that are most price sensitive—that is, the ones that have got least money.

Senator MACKAY—And these councils are the ones where, as you say, up to 60 per cent of their revenue base is financial assistance grants, not rates?

Councillor Campbell—A lot of them are, yes. The way that financial assistance grants work is that those in greatest need and those who are the most remote—the furthest from the services—get the highest financial assistance grants.

Mr Nettle—That is why we went on to say, after page 27, what a community service activity is and what a regulation is. Really, it is perplexing to us as much as I am sure it is to you. We went down the European model. They laid out a prescriptive list and said, ‘Look, all these things provided by local governments are taxable and all these things aren’t.’ They worked with prescriptive lists. To us, it is a better start option for local governments, and particularly community governments in remote areas, to start with that list and say, ‘If you do this, you’re going to have to charge tax on it. If you do this, you don’t have to charge tax on it.’ Start with that. What we are saying about the legislation is, ‘Let’s set something down which is a little bit more concrete than what we have got at the moment,’ and let them try and sort it out. I think our best option is to get prescriptive with it.

Senator MACKAY—You are quite right. There is a whole series of models where all activities of local government have been exempt from a VAT or a GST equivalent. Let us go through this again for the benefit of Senator O’Chee. Local councillors run for election on a platform—is that correct?

Councillor Campbell—Exactly.

Senator MACKAY—On that platform, they say, ‘Your rural community does not have a pool. We will provide your pool even though it is not cost effective. It will be basically built out of the rates and, in some regional and rural communities, financial assistance grants.’ People elect those councillors based on the commitments they give. It is an election. It is not a question of councillors arbitrarily deciding what they are going to provide. It is that the councillors are elected. They run on a platform of what people want. They deliver it as a community service. Would that be a reasonable summation?

Councillor Campbell—Definitely. I add the point—it is recognised by academics in the area—that ratepayers in particular are very sensitive about any increases in rates. You write out a cheque every six or three months or every year. They are very sensitive to any tax increases, more so than even state and federal voters. It is a phenomenon that is well known. Therefore, if you go to an election saying that you are going to spend an increase in rates to provide that service, there is really thorough assessment and accountability involved.

Senator MACKAY—So people elect a set of local councillors who have stood on a platform of service provision *inter alia*. They then get in there and implement it. The people pay their rates to this set of councillors that they have put their trust in to have the platform they like. The council then uses the rates base to subsidise the provision of the services. Why should people pay a GST on that?

Councillor Campbell—That is our question. Exactly.

Senator MACKAY—It is a tax on a tax.

Councillor Campbell—Yes. That is right. It is a tax on a subsidy. The subsidy is basically tax revenue being used to provide a community service. That is our argument.

Mr Nettle—Price Waterhouse pointed out to us that division 38 within the draft legislation is so broad and loose that you would tax under a GST land tax, the Medicare levy and local government rates. They would be incorporated within the GST.

Senator MACKAY—Local government rates?

Mr Nettle—Yes, and the Medicare levy.

Councillor Campbell—It needs to be tightened up.

Senator MACKAY—So it is a bit fuzzy.

Mr Nettle—That is how woolly the legislation is at the moment. So it needs a bit of work done on it.

Senator CONROY—Have you had any further correspondence with Mr Crosby? Have you drawn to his attention the inaccuracy or the misleading nature of his letter? Have you written to him and said that this is what has come out in the process?

Councillor Campbell—I have just discovered that that was the explanation for that letter. We have certainly drawn the government's attention to Mr Crosby's letter and pointed out the undertaking that we have received. I have not received a letter clarifying that it was a mistake. I have received no communication saying that it was a mistake.

Senator CONROY—In the four or five months since the election when you have been raising this issue with the government, if it were not for the questions that Senator Mackay asked Senator Macdonald, the minister, you would have received no clarification?

Councillor Campbell—I have been advised that the government's position is that the commercial activities of local government would be subject to a GST. That was the government's position. Similarly, their definition of a commercial activity is different from ours; a nominal charge is involved. Certainly I have had that communicated to me.

Senator CONROY—But this is about the non-commercial aspects. Despite it being four or five months later, you have received no rebuttal?

Councillor Campbell—I have had no explanation of that correspondence, no. The government's position has certainly been made clear, but there was no explanation of the difference between the Crosby letter and their position.

Senator CONROY—I suggest that you get in touch with Mr Crosby and point out Senator Macdonald.

Councillor Campbell—We will pursue that matter.

Senator CONROY—Or the Prime Minister, whom you originally wrote to and whom Mr Crosby was writing back on behalf of.

Councillor Campbell—It was the New South Wales presidents of the Local Government Association, so I will draw it to their attention. They were the ones who wrote that letter.

ACTING CHAIR (Senator Gibson)—Senator O'Chee has a couple of questions. Before we turn to them, I want to clarify that local government is still negotiating with the government about finalising these matters; is that true?

Councillor Campbell—Yes. We have received an undertaking from the minister that any concerns will be taken on board and clarified, if possible. It is through his good offices that we are having the meeting on the 12th. We are very happy to have been involved in that process.

ACTING CHAIR—Thank you.

Senator O'CHEE—I want to confirm your understanding of the tax legislation. You have given us lots of views about your understanding of the tax legislation. Can you please give us your understanding of input tax credits?

Mr Nettle—An input tax is a credit back to the purchaser for the tax that is paid on the inputs to that product along the way. If in local government you are buying a piece of machinery or equipment, you gain credit back for all the taxes that have been paid throughout. The input tax actually flows through each stage. There is a VAT process. At each stage, the tax is credited back. By the end, you have a single tax on it or it is GST free, depending on the circumstances used.

Senator O'CHEE—I want to clarify something that Councillor Campbell said. You do understand that all inputs will generate for councils input tax credits on all activities?

Mr Nettle—Yes.

Senator O'CHEE—Not, as Councillor Campbell said earlier, only on GST-free activities? If you disagree, please tell me.

Councillor Campbell—What I referred to before was the GST-free status of activities that are funded by general rates. I think you might have been confusing my statement about GST-free status as opposed to input tax credits. I did not—I would be interested in seeing the *Hansard*—mislead you before. I was referring to the fact that things like road making, which are funded out of general rates, are GST free.

Senator O'CHEE—I want to clarify that you agree and that you understand that all of your inputs will have the GST refunded in full, be it for a GST-free activity or a commercial activity?

Councillor Campbell—Yes. I understand that.

ACTING CHAIR—That completes this part of the hearing. Thank you, Councillor Campbell and Mr Nettle, for appearing before us.

Councillor Campbell—Thank you very much. We appreciate the committee listening to us.

ACTING CHAIR—We will break for morning tea.

Proceedings suspended from 10.57 a.m. to 11.14 a.m.

BRADLEY, Mr Gerard Patrick, Under Treasurer, Queensland Treasury

LASSEN, Mr Jeffrey Alan, Acting Director, Tax Policy Branch, Queensland Treasury

SMITH, Mr David James, Acting Assistant Under Treasurer, Economic Performance, Queensland Treasury

CHAIR—I welcome the representatives from Queensland Treasury. Mr Bradley, I think you have been before us before, have you not?

Mr Bradley—That is right.

CHAIR—You know the format. We ask you to speak briefly to your submission. You will then take questions from the panel. Please proceed.

Mr Bradley—Thank you for this opportunity. The Queensland government has lodged a submission with the inquiry subsequent to my last appearance. It seeks to expand on the oral evidence I gave at the last hearing. The submission focuses on the major impacts of direct concern to the Queensland government—namely, the effects of the proposed changes to intergovernmental relations; the effects of the ANTS document, as I will call it, on the state economy; and the impact of ANTS on state government service delivery.

In December, I presented the committee with the Queensland government's concerns regarding the deficiencies in proposed reforms to Commonwealth-state financial arrangements. The government's position has not changed on this issue. In our view, the proposed compensation arrangements for the last of state revenue in the transition period are unfair and discriminate against Queensland.

One issue which the government has considered since I appeared before the committee in December is whether the government would use any additional funds, which might be obtained if the arrangements were in fact changed and we were to receive our proper entitlements to a share of GST revenue. As outlined in the submission, the government intends to pursue an early reduction in stamp duty on business conveyances in the event that additional revenue is realised under the arrangements. This was the original intent of the Commonwealth proposal in ANTS, but the Special Premiers Conference in November proposed to delay the introduction of these taxation concessions until at least the end of the transition period to assist in addressing budgetary shortfalls across the other states. Beyond these stamp duty concessions, any further revenue would be allocated in the context of budget priorities, with health and education likely to be amongst the highest priority areas, although it is likely that that would not occur until well after the transition period when additional revenue starts to build over time.

The Queensland government submission also provides the committee with the results of economic modelling commissioned by the Queensland treasury to model the quantitative impacts of the ANTS package. The modelling was performed by the Centre for Policy Studies at Monash University. I understand that Professor Dixon was also engaged by the

committee to perform a similar analysis. The findings of Professor Dixon in his study bring into question the benefits claimed by the Commonwealth in its ANTS document.

Of particular concern to the Queensland government is the finding that the ANTS package is not expected to yield any long-run improvement in economic welfare. At a more micro level, a major concern for the government is the relatively large negative impact on tourism. Tourism accounts for around 6.6 per cent of gross state domestic product and is currently an important source of employment growth in Queensland.

Finally, the submission highlights for the committee examples of expected service delivery impacts. The projected financial benefits of the tax package will not begin to accrue to Queensland until 2003 and 2004 at the earliest, when state and local governments must address both the direct and indirect impacts on service delivery in the interim. Several examples of these imposts which have already been identified by Queensland government agencies are included in the submission. They include reduced revenue from tax equivalents; investment income in dividends which have not been factored into the Commonwealth's assessment of the impact on state finance; the development of systems; the preparation of returns; and the recovery of GST paid on business inputs, which will increase government administration costs. It may be particularly onerous for small local governments.

There will also be increased costs in providing public housing assistance as a result of the input taxing of residential housing; pressure on public housing waiting lists as low income households in rental accommodation seek relief from a projected rise in housing costs; and increased demand for government programs from lower income earners, who form the bulk of the clients for some government agencies. There will be demand to increase funding support from non-charitable community groups, which will face increased costs as a result of the GST. The full extent of the indirect impacts will only be known after the effects of ANTS work their way through the economy.

While individually some of these impacts may be relatively small, in aggregate they represent a significant uncompensated cost from the national tax reform. The additional cost burden will place increased pressure on the level of services provided by the state. Those concerns are outlined in the Queensland government's submission. I am happy to now take questions that the committee may have about our submission.

CHAIR—Thank you, Mr Bradley. I neglected at the beginning to invite you to introduce your colleagues at the table. Perhaps you should do that now.

Mr Bradley—Thank you. I have with me today two officers from Queensland Treasury who have been involved in the preparation of the Queensland government submission. They are Jeff Lassen and David Smith. They are here to assist the committee if any questions of particular detail arise.

CHAIR—Are you in a position to confirm my understanding that it was the intention of the Treasurer to appear here today but that he was not able to be released from his parliamentary duties because of the absence of a pair?

Mr Bradley—Yes. My understanding is that he was not able to obtain a release from his parliamentary duties.

CHAIR—Because there was no agreement for pairs. Is that the reason?

Mr Bradley—That was a factor in it. I would need to confirm that with the Treasurer's office.

Senator GIBSON—Mr Bradley, your premier, in the communique issued by the premiers and the Prime Minister in November last, indicated that all the premiers and chief ministers agreed with the government's proposal in general terms. Is that not so?

Mr Bradley—No. As I indicated when I last spoke to the committee, the communique was issued by the Prime Minister, not by the Prime Minister and the premiers. That was a view expressed by the Prime Minister. The Queensland government, however, did not endorse the communique or the outcome of that conference. Indeed, it expressed a number of concerns and reservations.

Senator GIBSON—You say in your conclusion that the proposed transition arrangements for the distribution of GST revenues between the states will disadvantage Queenslanders relative to other states. Firstly, is it not true that in an absolute sense Queenslanders will be better off following the reorganisation of the tax package?

Mr Bradley—We do not believe so in Queensland. State taxes are to be replaced. However, a number of those state taxes are not raised in Queensland and/or are not raised at the levels that are incurred in other states. During the transition period, our share of GST will be redirected to assist the states to compensate them for the relatively higher levels of taxation. We believe that if a fair outcome is to be achieved, revenue should be retained by Queensland. We should be allowed to restore the relative tax position of Queensland taxpayers by reducing other state taxes, which is what the Queensland government has indicated it will do in its submission to the committee.

Senator GIBSON—I hear what you say. A table on the last page of your submission deals with the impact of proposed national tax reform state by state. At the bottom, it says 'Final Budget Impact'. You show that—in the 2000 and 2001 financial years—for the first three years there will be a zero impact but that after another three years Queensland will benefit by an additional \$390 million.

Mr Bradley—That is the impact on the Queensland state budget. It is not the impact on Queensland taxpayers. Certainly there will be a benefit to the Queensland state budget. The government has indicated that it will seek to compensate taxpayers for the additional tax they are paying under the national tax reform arrangements and use the additional funds generated to reduce state taxes, particularly business conveyance duty, which under the ANTS document was previously indicated to be abolished at an earlier time.

Senator GIBSON—That is fine. I think everyone in Australia applauds the fiscal situation that the Queensland government finds itself in relative to all the other states and which is due to successive governments. But is it not also true that if this tax package does

not go ahead and the status quo is retained you will move on? With the tax package coming in, in the long run, won't Queensland be better off and have higher revenues from the GST?

Mr Bradley—Those higher revenues arise because we are being given a share of higher tax revenue raised in Queensland. So there is an additional tax burden being placed on Queensland residents.

Senator GIBSON—On all Australians.

Mr Bradley—But particularly in Queensland, where we do not have, for example, the FID, which is being abolished in other states. There will be an increase in the tax burden in Queensland, as our submission outlines. We do not see it as a revenue gain.

Senator GIBSON—I hear what you say. The transition period is what you have been arguing about when you say you are being disadvantaged. In the longer run, the GST will provide additional revenues for Queensland and all state governments over and above the current arrangements.

Mr Bradley—Yes. But, in our case, we feel that we need to use that to help offset the additional tax burden in Queensland so that we actually restore the same relative position of Queensland residents as existed before the package. Over time, in addition to replacing the taxes that currently apply, there may be some net revenue gain to the state budget. I have indicated that the government would look to improve health and education services in particular. But it is in the long run. I guess the Queensland government is concerned about the other impacts of the tax package on the Queensland economy, including tourism. That revenue gain pales in comparison to the impact on the state economy.

Senator GIBSON—You mentioned some pessimistic numbers in your submission about, for instance, economic growth. You have commissioned Professor Dixon to give you estimates. I point out to you evidence to this committee and our first report two weeks ago. Summarised on page 77 of the document are the real GDP estimates from other modellers. Murphy states 1.8 per cent of GDP. The Melbourne Institute states 1.7 per cent. Access Economics states 2.5 per cent. Dixon says 0.15 to minus 0.21 per cent. The modeller you chose, which is fine, has given the most pessimistic view. Three other modellers have given a much more optimistic view of the effect of the tax package.

Senator CONROY—Based on optimistic assumptions.

Senator GIBSON—That is without taking into account a lot of other evidence we have received that, from the tax package, the business community will have additional incentives over and above what has been modelled. There will be incentives for people with lower incomes and the removal of the welfare trap with income taxes.

Mr Bradley—My understanding is that the range of forecasts from different commentators indicate marginal net benefits as opposed to marginal net losses, as Professor Dixon has indicated. Overall, the gains are relatively modest in comparison with a package of this nature. We are also concerned, in particular, about the effects on the Queensland economy and the effects on tourism, for example, which will be disproportionate in this state

relative to other states. It will impact on employment levels, which is a significant concern of the Queensland government.

Senator GIBSON—We are aware that Queensland has put this view. The other states have not rallied to your cause.

Mr Bradley—All the other states are concerned to ensure that their state finances are not negatively impacted by the package. They are all concerned to ensure that that is the case. In terms of whether they wish to see Queensland contribute to the costs of their compensation, that is another issue which has not really been tested. We are not seeking to disadvantage any other state. We are simply seeking that Queensland receives its fair share and that the Commonwealth bears the burden of any guarantee it wishes to put in place during the transition period.

Senator O'CHEE—You say in your submission that low income earners will see their living standards decrease. You are aware of that representation in your submission?

Mr Bradley—That comment is made in relation to the use of state government services, yes.

Senator O'CHEE—You say that there will be an increase in the demand for state government services from low income earners, whose living standards will decrease. Do you support that view?

Mr Bradley—That is the concern raised by Queensland government agencies involved in the provision of welfare assistance and welfare services to the most disadvantaged in the Queensland community, yes.

Senator O'CHEE—But do you support the view that low income earners will see their living standards decrease?

Mr Bradley—The quote from our submission, to be precise, is that the Queensland government is not in a position to make a conclusive assessment. However, if lower income earners do experience reductions in living standards, this will impact on state governments.

Senator O'CHEE—There is another—

Senator CONROY—Do not let Senator O'Chee put words in your mouth.

Senator O'CHEE—You have to excuse Senator Conroy. My son behaves like that, and he is four months old and teething.

Senator CONROY—Forgive Senator O'Chee. He is unemployed after June.

Senator O'CHEE—I draw your attention to the paragraph in question. It says on page (v) at dot point 2:

increased demand for government programs from lower-income earners, who form the bulk of the clients for some government agencies, experiencing reductions in living standards

That is what you have said. Do you believe that?

Mr Bradley—That is the executive summary. I have quoted, in particular, the relevant provision from our submission. It identifies the concerns.

Senator CONROY—Stop putting words in the witness's mouth.

Senator O'CHEE—Stop trying to interrupt.

Mr Bradley—It identifies the concern raised by our agencies that, in the event of reductions in the living standards of disadvantaged people, it will have a significant impact on the demand for services provided by state governments.

Senator O'CHEE—Let me put it another way. Do you believe that those concerns of your agencies are correct?

Mr Bradley—I believe that, in the event of that occurring, their concerns are correct.

Senator O'CHEE—Are you aware that ACOSS modelled the impacts on low income groups and that they are pessimistic?

Senator CONROY—ACOSS specifically said that they did no modelling.

Senator O'CHEE—They modelled the impacts on low income earners under four sets of assumptions. The most pessimistic ones showed that the greatest possible increase in the cost of living was 3.6 per cent, yet benefits would go up by four per cent. Are you aware of that ACOSS submission?

Senator CONROY—I raise a point of order. I am concerned that Senator O'Chee continues to mislead witnesses. ACOSS has said no such thing and has specifically testified to the opposite of what Senator O'Chee is trying to put. He is putting words into ACOSS's mouth and is asking Mr Bradley to comment on incorrect statements.

Senator O'CHEE—Mr Chairman, that is not a point of order. This is yet another childish and puerile interruption from Senator Conroy. If he does not understand the ACOSS submission, I suggest that he go into another room and read it.

CHAIR—Order! Please proceed with your questions, Senator O'Chee.

Senator O'CHEE—I have asked the question. I am waiting for the answer.

Mr Bradley—I am not in a position to comment on the ACOSS study. I have not examined their work. I can only comment on what is in the Queensland government's submission.

Senator O'CHEE—You put a lot of faith in what Professor Dixon said. You are aware that Professor Dixon said that low income earners are over-compensated?

Senator CONROY—When did he say that? Can you quote that one? Can you find that quote for us?

Senator O'CHEE—Will you stop interrupting, please. How long do we have to tolerate this? It has been going on for months.

Senator CONROY—If you want to ask a question, ask a question.

Senator O'CHEE—I have asked the question.

Senator CONROY—Stop making up evidence and putting it to witnesses.

CHAIR—The committee will come to order.

Senator CONROY—You are not allowed to mislead witnesses.

CHAIR—The committee will come to order. Let us pause for a minute, gentlemen.

Senator O'CHEE—Mr Chairman, I ask for a ruling. What will happen if senators continue to interrupt questions from other senators?

CHAIR—That is a hypothetical question. You have the call. Your side has had almost 15 minutes. We have to conclude this part of the inquiry in another nine minutes. I want to shift the call. I suggest that you continue to ask questions.

Senator O'CHEE—Mr Chairman, can I get an assurance from you that the next time Senator Conroy interrupts he will be ruled out of order and be asked to shut up?

CHAIR—I have called for order when there have been interruptions. I intend to continue to do so. Will you please proceed with your questions, Senator.

Senator O'CHEE—Thank you, Mr Chairman. I note that you are not going to do anything about Senator Conroy.

CHAIR—Senator O'Chee, you will not reflect on the Chair. I have consistently called for order when there have been interruptions. You will proceed with your questions and you will conclude your questions within a minute, if you do not mind, so that I can pass the call to the other parties present in this inquiry.

Senator O'CHEE—Do I get time, on a point of order, for interruptions from Senator Conroy?

CHAIR—Yes. Time has been allowed for interruptions. In trying to balance fairness between the parties at this table, let me point out that your side has now had a considerable amount of time. Your side started at 11.22 a.m. It is now 11.37 a.m. I have to conclude this

at 11.45 a.m. There is considerable fairness, if not bias, in your favour at this stage. There are two other parties here that will have questions.

Senator O'CHEE—Mr Bradley, are you aware that Professor Dixon said that low income earners are over compensated?

Mr Bradley—No, I am not aware of that.

Senator WOODLEY—I want to pick up on the whole issue of public housing problems, because that is a big issue. Just by way of explanation, the Democrats conducted a tax forum in Mackay on Saturday. A number of government agencies raised the issue of public housing as being one that they were concerned about. Your comments, whether they come true or not, ought to be canvassed as a concern, because the agencies were raising them with us. They were saying that rents are GST free, but they saw the other costs such as increases in GST on inputs such as building materials and so on as being a problem. Is that the reference you are making to public housing as being an area with a question mark over it?

Mr Bradley—Yes. There is a section in our submission on page 11 which talks about the impact on public housing assistance. That does indicate that, notwithstanding the compensation for new home buyers, the cost of constructing new housing is estimated to rise between 4.7 per cent and eight per cent, increasing the demand for private rental accommodation as more low income households are unable to afford home ownership. That will then flow through in terms of demand for state government housing programs and assistance as well. Our submission goes on and outlines some further issues in terms of the impact on housing programs as well. It is certainly an area of concern which has been raised by our government agencies based on their discussions with their clients and the community more generally.

Senator WOODLEY—In terms of public housing, has the state government looked at any figure that it may need to project in future budgets if in fact it wants to maintain a program of public housing? I know we have eight per cent as a very rough figure, but have you done any more detailed costings?

Mr Bradley—We have not done any precise costings for likely additional demand for housing program assistance. That is something we will be seeking to do. We have an ongoing program of work which seeks to identify the impacts and assesses the implications for government service delivery. That is an issue of ongoing work for us.

Senator WOODLEY—It certainly was an issue for a lot of community groups with they themselves seeing impacts on their clients and whether or not they would be able to access further funds from state governments, et cetera, for those kinds of programs, not just housing but a series of programs.

Mr Bradley—I think it is fair to say that there are a limited amount of state funds available for this program under the Commonwealth-state housing arrangements. Our ability to expand those services in an environment where our own revenue base is constrained would have to be in question I would think. But, certainly, it is an area that we would be

examining carefully to see what the implications are for the state government in delivering services.

Senator CONROY—I want to turn to your submission in terms of the impact on tourism. You state that:

- tourism related industries would be seriously disadvantaged, with Australia's tourism exports projected to be in the range of 7% to 12% below current forecasts.

How will that Australian-wide figure impact in Queensland in particular?

Mr Bradley—The work of Professor Dixon did highlight in particular the disproportionate impact on the tourism sector. He identified those projected impacts in the range of seven per cent to 12 per cent, which you have mentioned. Queensland obviously has a very significant tourism industry. Our view would be that that impact would fall disproportionately on Queensland in particular. Tourism is currently the major source of employment growth in Queensland. It has contributed between six per cent and nine per cent of gross state product over the past 10 years, so it is a very significant component in the state, particularly in terms of new employment growth. So it is an area that we are particularly concerned about.

Senator CONROY—So this package is going to lead to job losses, particularly job losses in the regional areas where some of those tourism centres are concentrated.

Mr Bradley—That would be our concern, yes.

Senator CONROY—You were correctly pointing out before that looking after the budget bottom line is not the sole purpose of the government if the taxpayers are going to be worse off because they are being undercompensated or overtaxed. Can you take us through that part again because there was some confusion earlier about whether the government was better off or the people worse off. So if you could just take us through that.

Mr Bradley—I think that probably the best example and the best precedent for this whole situation is really what occurred in relation to franchise fees a year or two ago. Because of the High Court challenge against state franchise fees, the Commonwealth came in and implemented a safety net which was certainly very helpful to state governments. They then allocated the funding to each state on a basis which left their taxpayers no worse off. So, in the case of Queensland, we received a distribution related to fuel taxes even though we did not impose a fuel tax. We then used that revenue to provide a rebate to Queensland residents so that there was no net impact in terms of additional fuel taxes on Queensland residents. So, potentially, you could have said that there was a windfall to state finances from—

Senator CONROY—But you could pass that straight back to the taxpayers?

Mr Bradley—Yes, we pass it straight back to taxpayers. Certainly, in the context of this package, we are also looking at the impact not just narrowly on state finances but more broadly on state taxpayers, which is why the government has reviewed its position and said,

‘In the event we do get additional revenue, we recognise that additional revenue is only occurring because a tax burden is rising on Queensland residents because they are paying the same rate of GST as any other state but they are not receiving the benefit of reductions in state taxes which are occurring in other states. So, if we are to restore the relative position of Queensland taxpayers, we need to lower their tax burden by reducing other state taxes.’ We have looked at the opportunity to reduce business conveyance duty in particular, which was already foreshadowed to be abolished under the Commonwealth package.

Senator CONROY—Let us say you were successful in your negotiations with the Commonwealth government and you were able to get this extra money out of them. You mentioned one use. What other sorts of uses could you potentially do—namely, the same sort of rebate style?

Mr Bradley—We would use it in the first instance to reduce the business conveyance duties in the early years leading to its hopefully earlier abolition subsequent to the transition period. Once we have been able to achieve that, we would seek to use any additional funding to improve services to the Queensland community. The Premier has indicated that the areas of health and education are particular priorities, although that additional revenue or net benefit might not occur until quite some years after the implementation of the new arrangements. It might not be until around years five and six and beyond before any significant net benefit would accrue to the state budget to enable service improvements to occur.

Senator SHERRY—There are two points I want to follow through on. Senator Gibson asked about the communique from the Prime Minister. My recollection is that the Premier of Queensland, Mr Beattie, specifically refused to sign that. Is that correct?

Mr Bradley—At the Premiers Conference it was put to the premiers that they sign a communique, a document. The Queensland Premier specifically declined to do that. The Prime Minister then issued his own communique at the end of the conference.

Senator GIBSON—If I can interrupt there, but I have a copy of the agreement here and it is right on that very point. The third paragraph of page 1 of the agreement states:

All Governments agree that the objective of the new arrangements, once the transitional changes have been completed, should be to enable the States and Territories to be in an improved financial position relative to that which would have existed had the current arrangements continued.

I just point out that, according to this agreement—

CHAIR—There are a couple of weasel words in there.

Senator GIBSON—Yes, but—

CHAIR—Words like ‘should be’ and ‘subject to’.

Senator GIBSON—Yes, but I emphasise the introductory words in that paragraph—‘all governments agree’.

CHAIR—Okay. You have made your point.

Senator SHERRY—I have a follow-on question from that intervention—which I did not object to—in that there were some important ifs, buts and maybes in the form of words like ‘should’.

Mr Bradley—I think the Queensland government has made clear right from the start its difficulties with the GST package. It highlighted in particular in that principles document which was discussed at the Premiers Conference where it strongly objected to the arrangements, particularly in relation to the transitional arrangements. The government chose not to endorse that document at the Premiers Conference because of its concerns about the financial impacts on the Queensland government and Queensland taxpayers more broadly.

Senator SHERRY—We have just been talking about the financial arrangements. The second area of questioning relates to the economic impact, particularly the jobs impact. Again, Senator Gibson referred to Professor Dixon, and you have used Professor Dixon. I draw your attention to Mr Murphy from Econtech. Mr Murphy is a supporter of the government’s tax package. In fact, he is Mr Howard’s preferred modeller. In evidence to our committee, Mr Murphy has pointed out results that are consistent with the results you have obtained in terms of the effect on Queensland—I might say Tasmania where I come from, but we are not dealing with Tasmania today.

In terms of Queensland, I draw your attention to chart 3 on our first report from Mr Murphy—Mr Howard’s preferred modeller whom he loves to quote—which shows that, in terms of industry employment shifts, there are 7,000 jobs lost nationally in the hospitality industry. We then go to state employment shifts, which is chart 5. Chart 5 shows that the net employment shift out of Queensland, the net loss of jobs—this is from the government’s preferred modeller—is a loss of 5,000 jobs. My question to you is this: is that not broadly consistent at least with the modelling you have done with respect to Professor Dixon?

Mr Bradley—It is broadly consistent in the sense that it is indicating a loss of employment in Queensland. The figures that Professor Dixon indicated were potentially of significantly higher amounts. Indeed, if his so-called worst case assumptions are used, the loss of employment in Queensland would be approximately 22,900 jobs, which is a reduction of 1.4 per cent in employment.

Senator CONROY—Did you say 22,000?

Mr Bradley—I said 22,900, which is outlined on page 8 of our submission.

Senator SHERRY—So, in terms of the micro effect, if you like, on a state, on a region, that has been clearly identified—that is, we have the best-worst case scenario from Mr Murphy of a loss of 5,000 jobs in Queensland net and we have the worst-worst case scenario of Professor Dixon of 22,000-odd jobs. Whatever model you take, the bottom line is that Queensland is a net loser in terms of jobs as a result of this package.

Mr Bradley—That is our understanding of it, yes.

Senator SHERRY—Thank you.

Senator GIBSON—Mr Chairman, I want to follow up on that point. Following on from Senator Sherry's questioning of you, Mr Bradley, I am sure you are aware as head of Treasury that, in relation to the modelling that was done by each of these modellers, the modellers' first assumption was that there was no change in employment in making up the models. So what we are looking at from chart 5 from Murphy's model is an assumption that there will be no change in total employment, but this is a rearrangement of the mix within Australia or within particular industries. You would be aware of that, would you not?

Mr Bradley—I have not got that particular material in front of me.

Senator GIBSON—But in general terms, each of the modellers that came before this committee over the last couple of months made the point that one of the key assumptions in order to simplify and make up these macro models of the Australian economy is that there is no change in employment. What we are looking at in the particular instance that Senator Sherry quoted to you from Murphy on page 284 of our report is based on the assumption of just a change in the mix given no growth in employment.

But is it not also true that your state has been growing by something like 35,000 a year from interstate migration in total number of people and in employment. Those numbers of a few thousand change here or there between states are relatively misleading, given that you have substantial population growth faster than the other states and also substantial employment growth? Is that not true?

Mr Bradley—The situation in Queensland is that, if we are to maintain an acceptable level or even keep unemployment levels around current levels, we need to generate significant jobs growth given our high interstate migration. So there is a high need for us to continue to achieve significant employment growth.

Our concern is that this in a regional sense will disproportionately impact on Queensland's capacity to generate employment and will be a net detractor from employment growth in Queensland. In the sense, we would certainly hope that employment growth would continue in Queensland, but this will impact negatively in the sense of the level of employment growth that might occur in the future in Queensland.

Senator GIBSON—What has been the level of interstate migration into Queensland per year in the last couple of years?

Mr Smith—We have gone from a peak of about 52,000 a few years ago and it has come down to around about 17,000 at the moment.

Senator WOODLEY—That is net?

Mr Smith—Net, yes.

Senator CONROY—I have one last question. Have you done any modelling on the impact on education exports of the package?

Mr Bradley—I think there is an assessment in the Dixon report of the impact on exports, including education exports. I am just trying to find the correct reference, but rather than do that here now, I will be happy to come back and clarify exactly our information on that.

Senator HARRADINE—In respect of local government, your submission to us suggests that the Queensland government is opposed to the proposal by the Commonwealth government that the states be responsible for the disbursement of moneys to local government.

Mr Bradley—That is correct, yes.

Senator HARRADINE—Is that a view that is shared by other states and, if so, which other states?

Mr Bradley—My understanding is that that is a Queensland government view in particular. I am not aware of it being shared by other states, but it reflects the concerns that our own local government sector has. They would prefer to see the current arrangements continue, I understand. I am not aware of other states having expressed a similar view.

Senator HARRADINE—Do you mean to say that the states have not discussed this either formally or informally? That would surprise me.

Mr Bradley—It certainly has been discussed between the states, but I think Queensland is the only state which has really come out and clearly stated a position that it would prefer to see the current arrangements continue with the Commonwealth directly funding local government as at present.

CHAIR—I have one question in conclusion. As I understand it, your submission argues that agencies reporting to you indicate that in some cases they will be worse off. Do you have any advice to them as to how they might then handle their budgets, given that their options seem to be—where they can—impose or increase charges, reduce staffing levels, or cut back services? Do you have any advice to them as a central agency within the Queensland bureaucracy as to how they might go about that, or is that left for them to decide?

The second part of my question is: if charges are being increased, do you have any advice as to whether they should say to their clients that the amount of the increase that is due to the GST is as a consequence of the GST, and make transparent what the impact is in the community? That is to say, what amount is tax and what amount is not. Where services are cut back, how would they make transparent to their clients that a reduction in services is due to these changes?

Mr Bradley—We are working through the impacts on their particular services and finances with each agency. We have not formed a standard view as to how that impact should be managed. Certainly, the Queensland government's view would be that reductions in services would be the least desirable outcome. In the event of increased costs or charges flowing to agencies, we would have to consider a full range of options, including additional

funding from the budget more generally to assist them in actually providing or maintaining current service levels without impacting on clients.

Our concern is that, in the particular areas that have been identified by agencies, these are services provided to people in the community who are less able to bear increased costs and charges. In terms of the Queensland government's view, again it would be quite undesirable to actually pass on increased costs, but nevertheless we will have to look at all those options. We will have to work through carefully with each agency how best to manage the impacts. Certainly in our context, if indeed we are to obtain a reasonable share of the GST revenue, that provides the government with the flexibility to consider how it might best address particular impacts across government services.

CHAIR—Thank you. I do not think there are any further questions. I thank the Queensland Treasury for the assistance they have provided to the inquiry.

[11.59 a.m.]

AMIES, Mr John Edward, Senior Manager, Finance and Administration, Queensland Sugar Corporation

MALES, Mr Warren, Principal Economist, Queensland Sugar Corporation

CRAIGIE, Mr Max, Deputy General Manager, Australian Sugar Milling Council

NICOLL, Mrs Bernadette Marie Carter, Accounting, Research Officer, Workplace Health and Safety, Australian Sugar Milling Council

BALLANTYNE, Mr Ian James, General Manager, Queensland Canegrowers Council and Australian Canegrowers Council

CHAIR—The first name that appears on my list is yours, Mr John Amies. Does that mean you are the designated hitter on behalf of the team or not?

Mr Amies—Yes, I will be making the opening remarks.

CHAIR—Would you care to introduce your colleagues, proceed to make some brief opening remarks and then, if you would be kind enough, be available for questions from the committee.

Mr Amies—Thank you for the opportunity for the Queensland raw sugar industry to present its submission to the Senate Select Committee on a New Tax System. This submission is made by the Australian Sugar Milling Council Pty Ltd, cane growers and the Queensland Sugar Corporation. The Queensland raw sugar industry seeks to draw to the attention of the Senate inquiry two imposts which will come with the goods and services tax, the GST, as proposed. Both of these, that is the cash flow costs of financing GST remittances and the introduction of a diesel fuel excise on sugar cane rail transport, appear in our view to be oversights in drafting the proposed legislation.

The industry therefore seeks, firstly, the establishment of a mechanism which better enables the matching of the Queensland Sugar Corporation's GST export credits with its GST remittances to sugar mills in a manner consistent with international practice and, secondly, the retention of the diesel fuel rebate, as diesel is a credible fuel for the Queensland raw sugar industry for the transportation of sugar cane by rail. This is similar in treatment to what has been recently accorded to the mining industry for the benefaction of minerals and ores.

Before returning to these points I would like to briefly provide background information on the Queensland raw sugar industry. The Queensland raw sugar industry is a low-cost producer by world standards. It makes a major contribution to the Queensland regional economies and the Australian economy generally. Cane sugar is Australia's second largest export crop, after wheat, with annual export sales in the 1997-98 financial year of \$A1.7 billion, and that represents 85 per cent of production. With gross values of sales exceeding \$2 billion annually sugar is Australia's fifth largest rural industry, based on gross value of

production—this is after wheat, beef, wool and dairy. There are approximately 6½ thousand sugar cane growers and 26 sugar mills operating in Queensland, producing and processing over 95 per cent of the cane grown in Australia.

The area assigned to sugar cane growing in Queensland has increased by over 45 per cent since 1988, an increase of over 175,000 hectares. During this period sugar cane and sugar production has increased by over 60 per cent. Presently the total sugar cane crushed and produced in Queensland is some 37 million tonnes, and raw sugar produced from cane in Queensland is over five million tonnes per annum. Furthermore, investments have been made which will result in further expansion of production. With static consumption in the domestic market all additional production will be exported.

The industry plays a major role in the commercial structure and social fabric of many regional economies, including major centres in Cairns, Townsville, Mackay, Bundaberg and Maryborough and smaller coastal communities such as Innisfail, Ingham and Ayr. Any change to the economic prospects of the industry will have a dramatic impact on these regional communities.

As a price taker and a major exporter the Queensland raw sugar industry cannot pass on the cost increases imposed by government, including the financing of the cash flow impost of the proposed GST and removal of part of the diesel fuel rebate for gathering of crops by rail, to the purchasers of raw sugar. Any costs resulting from the GST will, therefore, be borne by producers and directly impact on the international competitiveness and profitability of the industry.

I now turn to the two points we would like to raise. The first is the financing cost impact of the introduction of a GST. The introduction of a GST will result in the Queensland Sugar Corporation paying the GST on all raw sugar production, as payments are progressively made to mills in Queensland. With 85 per cent of production being for the export market, a significant financing cost will be incurred. Additional financing will, therefore, be required until the GST refund is received from the Australian Taxation Office. For example, if—and it is likely—the Queensland Sugar Corporation makes payments during the month of August 2000 totalling some \$300 million, this will be inclusive of \$27 million of GST and there would be no likelihood that taxes payable under the proposed pay-as-you-go system would make any material impact on the \$27 million. The Queensland raw sugar industry would, therefore, need to finance this payment of \$27 million until such time as a refund was paid by the ATO.

Whilst in the normal course of events businesses would have passed these costs on to customers, the Queensland Sugar Corporation cannot pass 85 per cent of this financing cost onto its export customers. The resulting finance cost then will be borne by the mills and sugar cane growers. It will become a real cost to the industry, a cost which is not incurred under the present tax system.

There are three options by which this additional financing burden and associated costs, in our view, could be reduced. Option one is the introduction of an extension of the GST lodgment period to 30 days for all taxpayers after the end of the tax period. The adoption of this option does not jeopardise the integrity of the GST system and aligns the Australian

system with many of its international competitors. I would like to make reference to section 3.5 of our submission. This would enable Australian exporters to operate on equal terms with overseas competitors.

The second option is to allow an extended lodgment period for sugar millers. As stated previously, the Queensland Sugar Corporation will always be in the GST refund position. If the Queensland Sugar Corporation could receive its GST refund prior to the lodgment of the miller's return, financing costs to the Queensland raw sugar industry would be substantially reduced.

The third option is the introduction of an accelerated seven-day refund period for major exporters. Existing provisions allow GST funds to be processed within 40 days otherwise interest is payable. This provision is similar in nature to other regimes operating in other VAT or GST countries and for the benefit of other exporters.

The diesel fuel rebate is the second issue we would like to raise today. The sugar cane railway system bestows major benefits on the community as it keeps some 25,000 truck movements per day off regional Queensland roads and reduces significantly the necessity for government spending on road infrastructure. As presently stated, there has been a 60 per cent increase in the tonnes of sugar cane harvested and transported to mills since 1988. Growth is expected to continue.

In terms of tonnes of freight hauled on an annualised basis, the Queensland raw sugar industry cane railway system is the third largest in Australia. Almost 13 million litres of diesel fuel are used in the sugar cane transport task annually. In response to the steady growth of the Queensland raw sugar industry, over the past decade the sugar cane railway network has been extended by over 300 kilometres to meet requirements to transport increased sugar cane tonnages. The capital cost of extensions and rolling stock has been significant. The investment is estimated at some \$150 million since 1990.

The decision to build an extensive sugar cane railway network rather than rely on public roads was made on the basis of the operating cost of railway transport as compared to road travel. This decision is supported by local, state and federal governments as it reduces the pressure on publicly funded road infrastructure. Industry investment decisions were made when the cost of diesel fuel for the sugar cane trains was not subject to excise because the full rebate for the diesel fuel used in the transport of sugar cane by locomotive and the on-farm use of trucks is deemed to be for use in the 'gathering in of crops' under the definition of agriculture.

If implemented, the effective excise component of the cost of diesel paid for rail transport of sugar cane would be increased from zero to 18c per litre. The cost of the change to the Queensland raw sugar industry is estimated at \$2.3 million per annum. This is akin to a new tax on rail transportation for the Queensland raw sugar industry, an impost which was not applicable before this proposed legislation.

The industry believes that the government did not intend to catch diesel fuel used in cane railway systems. The mining industry, which is similar to the raw sugar industry, having made commitments to extensive rail infrastructure in respect of their transportation for the

benefaction of minerals and ores, will continue to receive the full rebate. The raw sugar industry believes that the transport for the benefaction of minerals and ores activities is similar to the 'gathering in of crops' aspect of the raw sugar industry transportation as it forms an integral part of the industry, as does transport benefaction for the mining industry.

In addition, it is noted that all other off-road uses of diesel fuel and like fuels—these include diesel, bunker fuel and light fuel oil for marine business use—will qualify for a full credit of the excise under the tax reform package. It is submitted that the Queensland raw sugar industry should have similar treatment to the mining industry and other off-road business uses of diesel fuel.

In conclusion, the Queensland raw sugar industry adds \$1.7 billion to the export income of the Australian economy each year. Because the industry is export orientated, it must absorb any additional costs—such as the financing of the GST and the diesel fuel—arising from the proposed introduction of a GST, rather than pass them further downstream. This directly increases the industry's cost base and reduces its international competitiveness, both of which appear in our view to be unintended consequences of the proposed tax regime.

To reiterate my opening comment, the Queensland raw sugar industry seeks: firstly, the establishment of a mechanism which better enables the matching of exporters'—in our case, the Queensland Sugar Corporation—GST export credits with GST remittances to sugar mills in a manner consistent with international practice; and, secondly, the retention of the full diesel fuel rebate to the raw sugar industry for the transportation of sugar by rail, similar to the treatment recently accorded to the mining industry for the benefaction of minerals and ores. Thank you.

CHAIR—Thank you, Mr Amies. Is it your intention to invite any of your colleagues to supplement your remarks at this point or should we go straight to questions?

Mr Amies—Not at this time, Mr Chairman. We can go straight to questions.

CHAIR—You have raised a number of questions on behalf of your industry. Have you put these to the government and, if so, what is the government's response?

Mr Amies—We wrote to the Treasurer, the minister for primary industries and the Deputy Prime Minister in relation to these matters. At this point in time, a response has not been forthcoming.

CHAIR—Are you in expectation of receiving one in the near term?

Mr Amies—No.

CHAIR—Do you intend to press your case further?

Mr Amies—We plan to have further follow-up direct communications with the ministers involved.

CHAIR—Some of the questions you have raised are quite substantial matters. Bearing in mind that the government has said that it is not going to vary its tax package, if the bills that come before the Senate for us to vote on are unvaried, what is your view—should we vote for them or should we seek amendment in the terms that you have requested? If the amendment is not supported, should we try to defeat the bills? What should we do? I ask that question because we have to make a decision. We have got the legislation in front of us.

Mr Ballantyne—We would be requesting you to seek amendment in the first case, but obviously prior to that we will press our case with the government as well so that it does not come to that position. In the short term, we would seek amendment. I would have to say that, on balance from a sugar cane industry perspective, the GST to us appears to be net beneficial. This is an impost that we do not believe is appropriate. Without this impost, we think that the approach of the GST is probably net beneficial in so far as the cane production business goes. I cannot speak on behalf of individuals in their own private life and their pattern of expenditure as individual farmers. The answer is that we would be seeking you to make amendment if there were no other action forthcoming from the government in the intervening period.

CHAIR—Thank you, Mr Ballantyne.

Senator GIBSON—I would like to go through some rough arithmetic to try and put into context the two matters that you have raised. Please correct my rough arithmetic as I go through. First of all, we are talking about roughly a \$2 billion turnover for the industry. You have raised a legitimate concern about the cash problem in the first quarter. You will agree that the cash problem only applies in the first month. Every month from then on they balance out, because you would be getting repayments back from the tax office.

Mr Amies—The Queensland Sugar Corporation pays a significant portion of the value of the crop in the first half of each year. In relation to the current year, nearly 80 per cent of the value of the distribution to the industry has been paid by the end of December. So we have a weighting of a much higher proportion of payments and, therefore, the need to finance the GST. So we are talking about a rolling cost of finance. Yes, clearly, as we need to finance a new remittance, we would then get a refund from the ATO for the previous month.

Senator GIBSON—That happens month by month for whatever month you are selling.

Mr Amies—Correct.

Senator GIBSON—So there is a problem in the first month.

Mr Amies—Basically, even though we make regular payments throughout the year, that funding would be replaced with new requirements as the refund was obtained from the ATO. So it is not a cumulative effect, it is an effect—

Senator GIBSON—It is a one-off effect, basically.

Mr Amies—But carrying through the full year.

Senator GIBSON—Yes, but the real cost impost on you is the number you mentioned when you are selling, \$27 million of GST. So you have to finance that cash for a month, basically.

Mr Amies—The illustration we gave was \$300 million in a month, which represents our current situation. That is out of a total remittance of over \$A1.6 billion. So the sugar is produced over a six-month period, and those payments would be made, not only over the period of production, but also as we sell raw sugar.

Senator GIBSON—But the actual cost of that \$27 million for a month at six per cent interest is a couple of million dollars.

Mr Amies—Yes, but that funding would continue as long as we were paying similar amounts out to the industry.

Senator GIBSON—Once you have incurred that cost, from then on you would be getting credits back from the tax office in line with your pay-out, so it would balance out from there on.

Mr Amies—That is correct.

Senator GIBSON—So there is a one-off cost of about \$2 million to your industry. That is \$2 million in \$2 billion, so it is 0.1 per cent total cost. The second issue was diesel, and again you gave us a number of about \$2.3 million per annum. Again, in a \$2 billion industry we are talking about 0.1 per cent roughly of your total turnover.

Mr Craigie—No. There is a difference, in that the \$2.3 million only relates to the revenue that the sugar mill owner retains. Under the process we use to divide up the proceeds from the raw sugar crop, the millers only get to keep about one-third. So, it is \$2 million of one-third of the value of the crop.

Senator GIBSON—My question to you concerns this advantage of zero excise now on diesel going to 18 cents. What will be the aggregate impact on your industry at farm and mill level?

Mr Craigie—I think what will probably happen from here on in is that there will be a further analysis on whether or not it is in the industry's interests to expand the railway infrastructure or rely more on roads. In recent years, as my colleague pointed out, the industry has expanded in the order of 60 per cent. There has been considerable pressure put on roads, especially in the northern region from Tully up, and at local government, state and Commonwealth government levels there has been considerable concern about the additional damage being caused to infrastructure because of the truck movements.

Senator GIBSON—Can you tell me how many million dollars the industry is going to be disadvantaged in Queensland by paying extra excise on rail delivering cane to the mills? Mr Amies gave me a number of \$2.3 million before. Is that correct?

Mr Craigie—That is correct.

Senator GIBSON—I am just trying to put this into context. We have got a \$2 billion industry, you have a one-off additional cost of \$2 million—one-thousandth of the total. And you have an ongoing annual cost of about \$2.3 million—again, about one-thousandth of your total business industry. The tax package is all about reducing costs to all industries and all businesses. I will quote from page 167 of the ANTS document—there is not a specific one here for the sugar industry, but there is for other agriculture—which states ‘minus 2.3 per cent in costs’.

I just want to put this into context. You are facing probably a cost reduction of that order for your industry because your machinery, your road transport, your fertilisers and your chemicals are all going to be lower in cost. You have a concern about a one-off one-tenth of one per cent and an annual cost impost of about one-tenth of one per cent. Aren't they a bit out of whack relative to the cost reductions facing your industry?

Mr Craigie—They may appear to be a little bit out of whack but in respect of the diesel fuel excise, as we mentioned, we believe it was an oversight by the government. The government's own fact sheets state that off-road users will continue to be eligible for the full rebate. And the mining industry obviously did a lot of lobbying before the GST came into being and certainly their position was recognised. We feel that there has been an oversight in respect of the sugar industry, at least in respect of the diesel fuel rebate.

Senator O'CHEE—Is it the case that this government in fact increased the eligibility for the rebate to haul-out trucks?

Mr Craigie—No.

Mr Ballantyne—No. At the moment the business of gathering crops is eligible for the diesel fuel rebate. Gathering of crops consists of the harvesting, the hauling out and, ultimately, the cane rail transport system. Under the proposed bill the gathering of crops will fundamentally cease once the cane has been moved to the rail—that is the impact.

Senator O'CHEE—What I am saying is: is it not the case that about 18 months or two years ago this government, in fact, ensured in the Mackay area that haul-out trucks received the diesel fuel rebate and that there was a query about that which was in fact clarified?

Mr Ballantyne—I think that query was resolved. We believe they have been entitled and they have been claiming it. I think the matter was clarified.

Senator O'CHEE—Exactly. So the intention of this government, and I think you agree, is not to put a burden on. Is it also the case that you had discussions about this with the Treasurer's office or with Treasury officials?

Mr Craigie—Certainly in respect of the diesel fuel rebate we sought clarification that we would still be eligible, and we received that assurance. That was in 1995.

Senator O'CHEE—And on this matter with the trains, you also, I understand, have been told that it is certainly not the government's intention to take away a benefit that you receive at the moment. Is that not the case?

Mr Craigie—Not recently. As I mentioned, in 1995 we certainly got that assurance.

Mr Ballantyne—However, as Mr Amies said in his opening speech, we thought it was an oversight rather than an intent to impose an additional cost.

Senator O'CHEE—My understanding is that the discussions you have had with Treasury have indicated that the government certainly does not intend to do this and the matter is still being examined. Is that not the case?

Mr Ballantyne—I know it is with the government but I do not know the nature of its deliberations at the moment. I have to say we followed this up with the minister for agriculture and others, but I am not aware of the outcome of those deliberations and their intent. However, we had an underlying belief that there was an intent to impose an additional cost. I would expect that is the direction in which they would head.

Senator O'CHEE—Thank you.

Mr Amies—With respect to the financing issue, I think it is important to note that not only is there an interest component but also there is a requirement for industry to fund, so there is a financing component as well. The point I am making is that not only is there an impost which is more than once off—it is not just a cost in the first year; it is an ongoing cost to finance each year because obviously we will have to fund the initial remittances of GST in every year—but also we need to fund the value of the remittances.

Senator WOODLEY—I found your suggested amendments to be very helpful; if you do not get the assurance you are seeking from government, I think they may be of use to us. With light rail used by the sugar industry, isn't your argument strengthened by the fact that not only are we talking about off-road use but also it is wholly built, maintained and owned by the industry itself?

The government in no way has any input into that infrastructure. It is not simply off road; it is of a different nature than, say, the mining industry, which may put funds into rail infrastructure. But I understand that most of the mining industry's rail infrastructure would be on public rail rather than internally. In fact, your case is stronger, I am saying, than that of the mining industry. I am not trying to put words into your mouth, but that is my understanding of this matter.

Mr Ballantyne—I think the issue is not only about what occurs today, in fact, in taking vehicles off road but also about the industry still having a significant potential for growth, even given that we are going through a bit of a hiatus at the moment, I assure you. But there is the potential for growth to occur.

In the future with the cost of transportation then being examined, with capital costs for rail being examined and there being ongoing operational costs to examine, road transport would become more attractive. As an industry, I do not think we would like to see that; we would prefer to see an expansion of rail transport. But, at the end of the day, it is about returns, it is about cost of operation. This does increase the cost of operation.

Senator WOODLEY—But, in connection with both damage to roads and other environmental factors, isn't rail, in the way that you use it, significantly positive from an environmental point of view?

Mr Craigie—When you look at the proposal that the government is putting forward, we would be indifferent as to using trucks or rail because, in both cases, we would be paying 18c tax. You are correct in stating that we have built this infrastructure with very little government incentive. In fact, the only incentive that we have at the moment is the fact that we do get this diesel fuel rebate. With that gone, it will make transportation by truck more attractive, obviously. In future expansions, I guess there will be some little areas where they will prefer that as an option rather than to build a tram line.

Senator WOODLEY—You have raised the whole issue of the lag time between paying a GST on various inputs and then recovering it as a rebate. Have any of your farmers raised with you that issue of their purchasing equipment which is presently sales tax free but which will attract a GST and their then having to apply for a rebate, and of this affecting cash flows and perhaps resulting in their having to increase loan amounts in order to cover the GST for that particular period? Have individual farmers raised that with you?

Mr Ballantyne—We have looked at the administrative impact, the cost impact at the farm level to the extent that we can. Obviously, the nature and the shape of the form is going to be of interest to us. We believe, on balance, that that is probably an acceptable outcome; we believe that on balance.

We are, however, obviously reserving our judgment on the administration and the timeliness of returns. If people can meet the targets that have been indicated to us, then that is fine. With our farmers—and let me assure you that we have a lot of farmers who perhaps do not have the literacy and numeracy skills that other people enjoy—it may well present some problems in terms of the direct administration of regularly claiming to ensure that they are not directly out of pocket for the GST payments and claims for credits.

At the moment, however, we need to see how it will operate. We are presenting with a little bit of faith at the moment, I think, that it will operate effectively. We will be able to train and assist our growers in making sure that they meet their obligations and do not leave themselves out of pocket.

Senator WOODLEY—I presume that part of your advice to them would be to buy their machinery towards the end of the three-month period.

Senator SHERRY—Just for clarification, in the government's ANTS package—and I do not know whether you know the answer to this question—most of the major rural industries are identified, but sugar is not here. Do you know why? Senator Gibson referred to the 'other agriculture' category. I think it would be a bit of an insult if it were in the other agriculture category because all the other industries here are separately categorised. Do you have any idea?

Mr Males—That seems to be an oversight. It is not unusual in government economic statistics to see the sugar industry overlooked in terms of both its volume of exports and the value of its production.

Senator SHERRY—It is important because it is not just the cost effect that is at issue, it is the price effect; there are very significant differences in rural industries.

Mr Ballantyne—Some of the potential advantages the GST will bring I think, in terms of its impact on rural operations, will be slightly less with sugar. For example, there is very little road transport used in the hauling of cane, so some of those potential benefits will be different. I think, generally speaking, the sugar industry has a legacy of being a one-state business. It is for that reason we tend to get overlooked, unless we make a noise.

Senator SHERRY—Mr Ballantyne, are cane growers affiliated to the NFF?

Mr Ballantyne—Yes, we are.

Senator SHERRY—Have you raised with the NFF the issues that are in this submission?

Mr Ballantyne—Yes, we have.

Senator SHERRY—What has that organisation done?

Mr Ballantyne—It is aware of those issues; we said we would carry the matter forward with government in the first case, and with this committee in the second case, to see whether we could rectify what we believe is fundamentally an oversight.

Senator SHERRY—I am surprised, in the fairly broadly sweeping support of the ANTS package, that the NFF did not at least mention this issue at our previous hearings on the ANTS package. Do you have any knowledge why it did not mention it?

Mr Ballantyne—No, not directly. The NFF is aware of the issue, but it also was aware that we were going to carry this argument and our position forward and that we also had dealt direct with the federal government on the issue.

CHAIR—Does that organisation support you?

Mr Ballantyne—Yes.

Senator HARRADINE—Its representatives did not say so.

Senator SHERRY—As I said, it was fairly broad and sweeping support for the ANTS package. But, anyway, that organisation has to justify its position at the end of the day. Mr Amies, you mentioned that you had written to the government, to various ministers, about this issue. When did you write to them? Just tell us approximately, if you do not have the exact date.

Mr Amies—Towards the end of the first week or early the second week of February, following the January 29 deadline for submissions to the Senate inquiry.

Senator SHERRY—I was a bit puzzled by Senator O’Chee’s assurances on the diesel fuel rebate issue. His understanding was that the matter was resolved. You have had no communication?

Mr Amies—We have had no communication from the government in respect to the matters we raised.

Senator SHERRY—You have referred to the extra \$2.3 million cost per annum. I will not be too unfair to Senator Gibson, but he attempted to minimise the visuals of this \$2.3 million additional cost by referring to you as ‘a \$2 billion industry’. But isn’t it true that, in terms of billion dollar size, you are no different from the mining industry, which is not having this extra cost imposed on it?

CHAIR—They are price takers too.

Mr Amies—We are a large industry. But, then again, the price impact for a producer has to be looked at in terms of profitability. So there are two issues here. You look at our total revenue turnover, but you have to look at that in the context of what the producer is making in the way of a living out of the industry.

Senator SHERRY—Obviously the mining industry is a price taker like your industry—and it is a pretty shocking price at the moment.

Mr Ballantyne—Is that for sugar or for coal?

Senator SHERRY—No, I do not know the details.

Mr Ballantyne—I would like not to be left out as another industry in that case. I would like to mention sugar’s shocking price too.

CHAIR—What is the outlook? Will it turn up or go down?

Mr Ballantyne—Right now, we are at a 12-year sugar low, and that is likely to remain. I assume that you would hear this a lot from rural industries—but I can assure you that we are well below cost production this year. Our five-year average raw sugar price has been in the order of \$345; this year we are looking closer at \$270 or so. It is a very low price and it comes on the back of a very poor crop last year.

CHAIR—But your outlook?

Mr Ballantyne—Our outlook medium term is certainly strong. But we are looking at certainly a two- to three-year period of world surplus. Also, we have a surging Brazil that has just devalued and put itself right back in the market. But in the medium term, we are recognised as the world’s most efficient industry. In the medium term, we would expect the industry to continue to grow—and perhaps not at the rate it currently has been the last few

years, but it will continue to grow. There are certainly markets and outlets for our sugar. At the moment we are producing in the order of five million tonnes, or a little more. Our projections are that we will certainly go to 6.25 million tonnes or 6.5 million tonnes of sugar.

Mr Males—At the moment, world prices have dipped below 6c a pound on the New York Futures Exchange. That compares with price levels of 12½c a pound just in December of 1997. There is no immediate prospect of a price turnaround.

Senator SHERRY—So the bottom line is that this is an additional burden that the industry could do without.

Mr Males—Exactly.

Senator SHERRY—I have just one other issue, and I will not quote because I might not have taken the words down exactly. In respect of rail, it will add to the pressure to shift from rail to road, and there will be the obvious consequential flow on effects of increased traffic on roads, safety problems, damage to roads, et cetera.

Mr Craigie—Yes, that probably would be the case. If you could imagine, a sugar mill might have three or four main lines coming out—

Senator SHERRY—I have been through the sugar industry and I know the geography reasonably well.

Mr Craigie—So additional tonnage at the peripheral areas around a sugar mill will put additional throughput problems on those main lines, and further passing loops would need to be constructed. The economics might suggest that, if we are faced with an 18c a litre tax either way by truck or by road, it may be more efficient to deliver by road.

Senator SHERRY—I noted in your comments that, at least in terms of a greater proportion of future transport construction, movement by truck would be more attractive if this were to remain in place.

Mr Craigie—Yes. At the moment, at both a Commonwealth and a state and local level, they are concerned that the economics are stacking up in that there could be a preference in the future to haul more by road.

Mr Ballantyne—The impact then is on local government roads particularly, and then state and, obviously, federally funded roads. Obviously, currently, because of the growth, we are going through some growing pains with the impact for shire funding and roads. The industry at the moment in most areas is subject to a differential rating program, so the cost impact is ultimately transferred to someone.

Senator HARRADINE—All the issues I wished to ask question about have been covered.

Senator GIBSON—Mr Ballantyne, you did mention road transport—and I think the main point you were making regarded the carting of the cane being largely by rail at the moment. Are you aware that, out of the ANTS package, the Treasury estimate is that across the board, within Australia, costs to road transport will go down by 6.7 per cent? Won't that impact on your industry with lower costs in shipping materials up from Brisbane and on your capacity to employ and so on?

Mr Ballantyne—I am not denying that. All I am saying is that our reliance on road transport is not the same as the cattle, or beef, or grain industries. I think the weighting is slightly different. That is all.

Senator GIBSON—I just wanted to make the point that the cost of a lot of the inputs into your industry will be lower.

Mr Ballantyne—That is not questionable.

Senator GIBSON—We had evidence before our committee about three weeks ago from the Australian Road Transport Forum, which is basically the large trucks. Contrary to the Treasury estimate of 6.7 per cent across the board for road transport, their estimate was that for large trucks the cost reductions will be between 15 and 19 per cent for heavy road transport. That should make a big impact to North Queensland.

Senator SHERRY—It will be interesting to see if they deliver, very interesting.

Senator GIBSON—They also gave evidence to show that the competition is so tough in that industry that it will deliver.

Senator SHERRY—Guaranteed price reductions of that size will be fascinating to see.

Senator GIBSON—I wanted to bring that to your attention.

Mr Males—In response to your remarks, it is probably worth while pointing out that this 18c impost is at the margin, so all of those other things will happen in any event. Some of them will happen in the road sector and some of them will happen in the transport sector. But what will happen in the rail sector is that there will be an additional 18c per litre on diesel fuel. The decision moving forward is a marginal one rather than a total one.

Senator GIBSON—Sure.

CHAIR—The Australian Railways Association gave evidence to us. I took them to be an association of rail operators, basically public sector operators. They were not speaking on behalf of governments; they were speaking on behalf of their commercial business. They have put to us quite strongly the same view you are putting to us about discrimination in this package against rail where rail is in fact being used to cross-subsidise road. I would have thought that under competition policy principles that governments have a vested interest in intermodal competition—road versus rail, rail and road versus shipping and air and so forth—in order to get the greatest efficiencies for the national good. Have you raised your

questions with the transport minister, quite apart from the agriculture minister and the Treasurer, about what this distortion in fact does do?

Mr Craigie—No, we have not.

CHAIR—Harking back to the competition policy initially announced in the Hilmer report when he was inquiring into competition policy and he set out a series of principles, it was quite detailed and comprehensive in terms of intermodal transport, as I recall. It seems to me that the government does endorse those principles. It would seem to me to be a fairly telling argument as to why they ought to make a correction here.

Government senators may know differently from me, but looking at this argument about rail subsidising road, when the demands for rail to upgrade its track and maintain its competitiveness are quite compelling, it seems to me there must have been an unintended consequence—someone stuffed up, someone did not quite get it right. If these hearings have done nothing, they have brought out this fact. They have brought out a couple of other anomalies too, I think. It seems to me you would be on reasonably strong grounds to fix this up. I do not understand why anyone would argue that there ought to be a case not to do it. I am just asking you: has any such case been put?

Mr Craigie—No such case has been put. You are correct. We fund the whole infrastructure. It is not a case of the excise going back to fund the continued maintenance of roads and things like that. In this case the excise will be taken from us and that money will be used to assist in maintaining roads or just go into consolidated revenue and allocated somehow. Certainly it will make it less attractive and the government should really be looking at making rail infrastructure more attractive to keep trucks off roads. If the state rail authorities, through competition principles, run the rail operations to generate a return on the investment, then that can only be good for the government and the community.

CHAIR—I am not sure that I would necessarily argue—I accept that you are perfectly within your rights to do so—that the purpose of policy is to keep trucks off roads necessarily. From an economic point of view, I think the policy is to have true intermodal competition between road and rail, hopefully therefore bringing prices down in both. I think the Productivity Commission, when it existed, found on review that we have an extremely competitive road system in Australia and a very competitive rail system as well. Unless I am missing something in this argument that is blindingly apparent to everyone else but not me, you have an extremely good case and your rail argument should be acknowledged in some way. That is my view on what you have said and what the rail people have said.

Mr Craigie—Thank you.

CHAIR—There being no further questions, thank you for assisting the inquiry in the manner in which you have.

Proceedings suspended from 12.47 p.m. to 2.04 p.m.

MORRIS, Mr Stephen John, Executive Director, Customs Brokers Council of Australia

WALLACE, Mr Robert Bruce, Corporate Affairs Director, Customs Brokers Council of Australia

CHAIR—I welcome Mr Stephen Morris and Mr Bob Wallace from the Customs Brokers Council of Australia. Perhaps, Mr Morris, you might like to give the committee an overview of your written submission. At the conclusion of your opening statement, we will ask you questions.

Mr Morris—In simple terms, we looked at the terms of reference for the Select Committee on A New Tax System. They are, I suppose, in real terms quite broad references. But we looked at those and we saw that there was an opportunity for us to make a statement in two particular areas—the economic theories, assumptions, calculations, projections and estimates that would underpin the government's proposals, and the effects of the proposals on GDP, national export performance and federal revenue and the distribution of wealth in the Australian community.

As a bit of a background to why we are here and who and what we represent, the Customs Brokers Council of Australia is a national association headquartered in Brisbane. It has been in some shape or form relevant to Australian trade since the association in New South Wales was formed in 1907 and became a national association under various forms and guises since 1950. It represents in the marketplace both individual and corporate members and it represents those service providers in the industry who undertake the barrier clearance and international freight forwarding aspects both import and export in terms of Australian clients. The CBCA represents at or about 70 per cent of all customs broker corporate service providers and about 82 per cent of all individual employees who are employed under those corporate entities.

As from 1 July 2000, subject to the legislation being passed, we would see that this industry sector will become one of the largest collectors and transmitters of government revenue after that date and as such there are some issues that we would like to address. They have been set out in our paper to you. They are, in essence: non-taxable importations that are covered in part 3-2 of the existing draft bill; division 42, which relates to those non-taxable importations; and in particular 42-5 that relates to certain items in schedule 4 to the Customs Tariff Act 1995 that are regarded as non-taxable importations.

We would like to address those non-taxable importations, discuss with you the rationale for why they are non-taxable importations and then have a look at some of the equity aspects and revenue leakage that will occur in terms of government projections under in particular items 32A and 32B of the fourth schedule. So that would be our focus.

I think in referencing the items that are covered under 42-5(1), the majority of the items that are listed as non-taxable importations are in fact historical facts and relate to issues or commodities which we would not expect to be subject to any type of tax and, in the main, under item 23A these are trophies, bequeathments, travel literature and other items which are not commercial transactions and would not be subject to any particular GST revenue, and should not be subject to GST. However, items 32A and 32B talk about transactions which

occur which have certain value or customs duty and at this time sales tax threshold levels and on which no customs duty and/or tax is collected. It is under the new tax regime where every consignment will be subject to tax at the time of importation that we address the equity position in terms of goods that might be purchased in Australia as against those that are imported and the leakage that will occur if the government perceives that items 32A and 32B should continue as non-taxable transactional processes under 42-5.

In saying that I am not sure whether you would like me to go through what is in items 32A and 32B or just generally cover it for you. At the moment many items that are covered by 32A and 32B are free of customs duty in their own right or subject to a low or minimal rate of three or five per cent and in many cases are exempt from sales tax in their own right or are exempt from sales tax because they can quote a certificate for registration at the time of importation of the goods. Hence clothing is not subject to sales tax, but is subject to customs duty. At this time there are considerable imports of transactions that are coming through Internet trading which fall through or go through the crack in terms of any revenue requirement or any revenue payment to government.

CHAIR—Can you give us a for instance, some examples?

Mr Morris—For instance, if I were to purchase through Lands End or any of those Internet trading options a shirt which was worth \$95, that would come into this country free of customs duty and exempt sales tax because it falls under the \$50 duty and sales tax threshold and under the \$250 customs value threshold. That is because in its own right the duty is too small to collect and the goods themselves are exempt sales tax.

As from 1 July 2000, all goods will be subject to a 10 per cent GST and as such that shirt with its duty and tax calculation would probably have about 30 or 32 per cent all up being payable on that commodity. If I ordered that from overseas and it was delivered to me by mail-order transaction, there is no GST and no tax payable on that. However, if I go down to a major retailer in Melbourne or Sydney and purchase the exact same shirt off the shelf, I will be subject to a 10 per cent GST. I cannot see why in some sort of Internet trading option there is not a facility that the equity process exists that all parties would be subject to the same level of taxation in relation to any commercial transaction that transpired.

In our report we suggested to you that Internet trading at the moment is not a process which is from business to consumer, it is still business to business. But I would think that the reports that were put in to the Internet inquiry of which Senator Gibson was a member would suggest, particularly from Coles Myer, that they see that this business to consumer transaction level will increase dramatically and the level of trade through mail-order cataloguing will increase dramatically. To give an example, Coles Myer suggested that if you went into one of their stores and wished to buy a Ganton shirt—a trade name just picked out—and you said to them, ‘I would like that Ganton shirt,’ you went through the process, chose the shirt, they could say to you, ‘Do you want this shirt today or are you happy to have the shirt delivered to you on Friday?’ The question would be, what is the difference on Friday? If you are happy to take the shirt on Friday, it will be delivered to you without GST. The basis of that is that the pick and pay option and delivery option will be offshore and the goods will be delivered to you by way of the express carrier industry within 48 to 60 hours.

Senator CONROY—So they take my credit card and they beam it offshore to actually conduct the transaction.

Mr Morris—There are two options. They can let you in the boutique put all the data onto the screen yourself. You can go away from the store because you know the colour, the size and whatever you require. Otherwise, the representative from the company can put the information in there and send it and it would go to a logistic point offshore where it would be picked, packed, sent and delivered to you within 48 hours. The process is already there and can be achieved.

Senator CONROY—Could that work with goods that were Australian made, or would that only work with goods that are imported?

Mr Morris—No, it could work on export too. If we look at most of the shirts that we are wearing here today, I doubt you would find that they are Australian made.

CHAIR—I wouldn't say that. Mine is.

Mr Morris—I would stand corrected, but I would suggest that at the end of the day I might be on safe ground to suggest that at least 50 per cent would be imported, and I would suggest that most of our ties would be imported too.

So in addressing this it is quite feasible that this process will gather strength. There is no reason why you cannot purchase offshore your wife's favourite perfume, because that fits into the process of a consumer product which is easily deliverable through the process of the express carrier industry. This has got nothing to do with looking at the express carrier industry. What we are addressing here is that, as Internet purchasing requirements are made easier, as the industry matures, as Australian purchasers mature, this type of process will become more and more favourable, and an opportunity exists for large companies to provide that level of service for a product to be delivered without any customs duty and any GST payable. However, if you decide to take that shirt away from the store on that day, you will pay GST on it.

Senator CONROY—I am Internet illiterate, but Amazon, I am told, are just about the biggest book company in the world now in terms of share value and those sorts of things. I know that a lot of local booksellers complain about this Internet service that is there right now. I am told that Amazon are just going into CDs.

Mr Morris—Those kinds of things fall well within the mail-order cataloguing process. That is not to say that Australian retailers will not move into that process and offer the same opportunities. So it has got nothing to do with competitive pressures here. Those that see the issue will move into it and provide the same level of service. It is the product or the commodities that come into the marketplace from an external source, be they New Zealand or wherever, that will be non-taxable importations. In fact, at this time I can suggest you the consignments arrive here from New Zealand—Senator Gibson heard this in the Internet inquiry—that have at least 500 shirts consolidated into one airway bill. The 500 shirts are all separate consignments, separate contracts at law, and therefore they all fall under the threshold in terms of the duty payable under the customs value. They therefore skate under

the process. The consolidation is brought in and broken down and it is given to service providers in Australia to deliver, whether it is Australia Post or other express providers in Australia.

Those types of things occur today because of the way the legislation is structured. The shirts themselves at \$20 or \$50 each are exempt sales tax and, if the duty on the \$50 shirt is only \$7, why worry about collecting it? But in the new millennium all of the shirts will be subject to a GST, so it is a GST and tax implication multiplied together that provide an opportunity for revenue leakage. We disagree with the ATO's figures at the Internet inquiry where they spoke about a \$10 million leakage. We would suggest, on what we have in front of us and the information to hand, that the leakage would be anywhere out to \$50 million at this time. With GST and Internet purchasing maturing, the leakage will be exacerbated. It is the question about putting in place a system and process to collect the money at the barrier that we are addressing.

It would be suggested in certain circles, particularly from the Australian Customs Service, that this is a minimal amount of money and government can forgo it. That \$100 million might be regarded as minimal but, as I suggested to Senator Gibson, I would be happy to set up a company and collect the money on behalf of the government because they were not going to get it and take 50 per cent of the action. It would be suggested that at this time, though man has a capacity to put someone on the moon, it is found very difficult to develop a software solution to have these goods entered into the commerce of Australia and any duty and tax paid.

Senator CONROY—Would you be looking to try and catch those multiple consignments, or would you be saying that you have to go further than the multiple consignments and go after each individual sales contract?

Mr Morris—I think the opportunity exists and technology exists today to capture each and every one of those transactions.

Senator HARRADINE—Technology?

Mr Morris—The technology solution is there in terms of hardware and software solutions for people to enter the goods and have the duty and tax remitted to the government. It would be at no cost to the government, because in any process where there would be a solution given which would be a business solution the cost of providing the solution is recovered from industry anyhow in terms of cost recovery or the user pays principle. For the government to collect its revenue, to ensure that no leakage occurs and also to ensure that equity of process exists is at no cost of them; it is a cost to the consumer or a cost to industry at the end of the day.

Senator HARRADINE—In the case given, how would that be achieved? How would you be able to ensure that GST was added to the goods that were ordered through the Internet but supplied from a store?

Mr Morris—There are various options there. Most of these transactions that we are talking about where the revenue leakage occurs falls within a process within the Australian

Customs Service called screened free where a decision is made in terms of the information in front of you as to whether the goods will be subject to an entry process or, as they say, screened out of the process and delivered without any customs entry or without any duty and tax commitment. That decision used to be made by the Australian Customs Service by looking at data. The decision today is made by commercial operatives as to whether those screen into the process or screen out of the process.

Senator CONROY—You would be saying everything now is screened in.

Mr Morris—Screened in. By way of a simple software solution, there is an entry creation option. There is the duty and tax option to be created and for the money to be transmitted daily, monthly or whatever the case may be, and it is collected by those people for government. It is not a government transaction requirement. It would be the requirement of the service provider who does a door to door delivery to ensure that the goods are screened correctly, screened into the process and if any duty and tax is payable that it is collected and remitted. Of course you can understand, as a service provider, I do not want to enter into this process because it is a cost to me.

Senator GIBSON—I have had the advantage of hearing a fair bit of all this before the Public Accounts Committee last year. You skipped quickly through the current barriers for entry for these sorts of things. Could you go through that slowly so that everyone else understands what the existing system is so that we are all at one, if you like, in understanding that? I know you set out in your document of 19 March the informal entry process. Again, could you run through in detail what you are proposing there?

Mr Morris—In simple terms, all goods that enter into the commerce of Australia are subject to customs control. They either must be entered for home consumption and any duty and tax paid through a formal entry process or an informal entry process. However, to facilitate low value consignments, and this is a historical fact rather than a conscious decision made in terms of duty or tax, or consignments with no value from a Customs point of view—documentation, contracts, and literature that has been sent between parties as to: ‘Come and see me next year when you are in the States’ and so on—all of those are subject to an entry process.

But provision exists, as I said, within the Customs Act for certain goods not to be subject to a formal customs entry, that is, an entry created through the customs system. You can screen them out of the process if they either do not match the customs duty and tax threshold of \$50 per consignment or if it is a multiple issue of a customs value of \$250. In the Internet inquiry and in other inquiries, service providers seek to move that threshold up to what the post threshold is, which is a value of \$1,000 or a customs duty and tax threshold of \$150.

Senator CONROY—When you are talking about the value, you are talking about the customs value that would be due, not the value of the product itself. Ten per cent of \$500 is \$50 and therefore it would be a formal entry, but if it was \$499 it would fall below the \$50 threshold.

Mr Morris—If the value is \$250 it should be entered. However, if the duty and taxes is less than \$50 you can almost stay within the mix and not enter the goods formally.

Senator GIBSON—Can I try to summarise what you have been telling us?

Mr Morris—Please feel free.

Senator GIBSON—If people consign stuff either by air for by ship, mostly by air, from say UK to Australia, if the value of the produce is less than \$250 it can basically come straight in. The second barrier to it coming straight is if the customs duty payable on that item exceeds \$50 it has to be declared. There are those two barriers—total value \$250 and duty \$50. If it is under both of those, it can come straight in. These are mostly for airline consignments we are talking about.

Mr Morris—That is correct.

Senator GIBSON—For stuff coming in an envelope through the post different values apply. The value of the produce is \$1,000. The duty on it is \$150. They are the two amounts that apply to those two different systems for bringing stuff into Australia.

Senator O'CHEE—If, for example, I were to order a consignment of books and they were sent through the post, the threshold is \$1,000. That is not the lower consignment threshold.

Mr Morris—Because they are free of customs duty and sales tax at this time, the consignment moves into the process. As from 1 July 2000, there will be a 10 per cent GST which would equate that there would need to be \$100 worth of GST collected. The question is: what values are declared in terms of these types of consignments? There is no commercial documentation to support the consignments. The commercial documentation in a normal commercial transaction is either coming through the banking process or streaming through the entities through which the contracts are being made.

The information that is provided in terms of a package in front of you can be generated from a storeman's receipt. It might have no value declared at all or no commercial value. It might be no commercial value to the person selling the product because he is giving it away free but the retail price might be \$500,000. That is then a commercial decision by the service provider whether he screens it into the system or screens it out. For the sake of business entities and business processes and delivery options, they are screened out of the system rather than screened into the system.

Senator GIBSON—When you say the service provider you mean the person exporting into Australia from offshore.

Mr Morris—Or the person reporting to Customs whether the goods would be screened into or out of the process.

Senator CONROY—The existing system has a few problems. Changing technology and its capacity is a growing problem for us under the existing system.

Mr Morris—That is correct.

Senator CONROY—Are you saying under the new system the problem will be exacerbated?

Mr Morris—Correct. It will be exacerbated because there is a bigger revenue leakage option and also the marketplace will be growing, which will exacerbate the revenue leakage at that time.

Senator GIBSON—Could you run through in simple steps what you mean by your proposal you have set out in your document of 19 March?

Mr Morris—I think we have an option available to us to create an entry creation system or a system for clearing goods in such an informal method that is cost-effective, industry driven, no cost to government, minimal cost to industry users and collects the revenue.

Senator GIBSON—How will we do that?

Mr Morris—It is very simply about a software option where the service provider has to go about the process of entering the goods into a process by way of the owner and supplier's name, a value for the goods, a classification or tariff classification or item of the goods and the country of origin because they are the linking issues that crystallise the amount of tax or customs duty that must be paid and the amount of GST that would be payable.

Senator GIBSON—In Bill's example of buying \$900 worth of books from Amazon.com, who is the service provider? Who does the entry?

Mr Morris—The importer could do it because it would be such a simple process. There is the Internet capability now to create customs formal entries over the Internet. There is no reason why you cannot do an informal entry over the Internet and then get a release code or bar code. Then when you go to Australia Post to pick up this thing, they just waive it and say, 'It has been released. The duty and tax has been paid.'

Senator GIBSON—Thank you for going through all that.

Senator HARRADINE—I am a bit confused. Going to the Coles Myer example that you gave, this transaction would be just for the purpose of avoiding GST. That is to say the shirt that you referred to would be physically in the store and the financial transaction would be done by the store with an offshore service.

Mr Morris—No, Senator. Just to clarify that, you would have on the shelf the shirts you want to look at. You can either take choose a shirt and take that with you and leave the store and pay the GST or the option would be provided to you: are you happy to wait for one or two days to receive this shirt? Unless you really want this shirt today, you would say, 'What is the advantage for me waiting two days to receive this shirt?' The quick answer would be: 'You will pay no GST on this shirt. You will get this shirt \$10 cheaper and it will be delivered to your front door in two days. If the shirt does not fit you, Senator Harradine, you bring it back to our store and we will refund you the money.' The process is there. It will be

offshore. For large distributors, the cost of the express carrier industry is not \$50 per transaction. It can be as low as \$5 a transaction. By getting the aggregate mass or the critical mass of this, you can have all of your logistics offshore. You can have your payments made offshore.

Senator HARRADINE—So the shirt comes into the country at that stage.

Mr Morris—It will be screen free because it is under the \$250 customs value threshold, it is under the \$50 threshold, it is goods and services tax free, and it will be delivered to you. There is no duty and tax commitment under the law under item 32(a) or 32(b) of schedule 4 of the Customs Tariff Act. The option would be for you to make five separate transactions at the same time. They are separate contracts at law. You could have the five shirts aggregated and delivered to you at one time, but each one would have a separate purchase order consignment note and still fall under the \$50 and the \$250 process.

Senator O'CHEE—The Internet and mail order catalogue things to which you refer are almost invariably paid for by credit card, aren't they?

Mr Morris—That is correct.

Senator O'CHEE—Your preferred option is that people would actually have to fill in a little form on the Internet with the ACS and then get a clearance to be able to go to the post office and collect it.

Mr Morris—No. I am saying that could be achieved.

Senator O'CHEE—What is your preferred option, though?

Mr Morris—Most of the goods these days that come into the country that fall under the threshold options are not handled through the post; they come through the express carriers industry. So the service provider has to report the goods to Customs and determine the position. It is the service provider's responsibility to do that. But there is an opportunity, as you say, for people to purchase goods on the Internet and then click the icon that says country of destination. The country of destination shows up as Australia and it automatically brings up, in relation to a word search on the goods that are there, the classification, the duty and the sales tax or GST payable on the goods and you can remit that to the government separately. That technology is available today.

Senator O'CHEE—But aren't you requiring the seller in, say, the United States or New Zealand or whatever to have an interface with the ACS? Aren't you really requiring them to play by the rules and there is no guarantee that every service provider will?

Mr Morris—The service option that will occur is if they do not have the bar code or the release the goods go through a formal process in Australia. That is not a problem. The service provider has no release on the goods. So he goes through the process of entering them here in Australia. Service provision in terms of this express carrier industry is door to door within a certain period of time. We do not want to go through the process of holding it up and going through the entry process. In many cases the information would be fed back to

major suppliers—Amazon.com and all of these others—that there is a software solution for you to solve these processes.

I do not know what the answers are and what the position is within the European Union, but I would suggest to you that the same problems will continue to occur in terms of their VAT leakage that sooner or later someone will have to say, ‘It has got to the stage now where it is almost irreversible. What do we do?’ What we are trying to flag at this stage is that, if GST becomes effective from 1 July 2000, we should have in place processes to capture any GST that is payable in terms of commercial transactions so as to maintain the equity process between people who decide to purchase offshore and those who wish to purchase in Australia.

CHAIR—You are referring to electronic commerce, which has been around for a while now but is slated to get more intense. Your example is bringing a shirt in. I am mindful of an example put to me by a friend of mine in Perth who spends a lot of time at the hairdresser. She has an account with a Hong Kong Shanghai Bank in Hong Kong and her hairdresser has an account with the Hong Kong Shanghai Bank in Singapore. She goes and gets her hair done and emails her Hong Kong bank who pays the equivalent value of the hairdo into his account in Singapore. No money changes hands in Australia.

Obviously there is an advantage at least as far as the hairdresser is concerned, until he brings any funds into Australia, in getting a lower tax treatment in Singapore on company tax. He shares this with her to some extent by a slightly discounted rate thus encouraging her to engage in this practice, but it suits her anyway. With 10 per cent GST on haircuts—I am not saying there is going to be a sudden rash of this sort of thing—she can evade that as well, can’t she?

They can share between them the tax forgone, if you like, and not pay GST. There is no record really of how many haircuts he gives a day. That is one example of electronic evasion of tax. It does not even come across the dock or on an airline because it is a service that is rendered. In your experience, do you have any way of combating that should it be drawn to the attention of the government?

Mr Wallace—The example you draw is very pertinent in regard to trade and a lot of importers and exporters. What we are about in our industry is realising and trying to identify on a transaction basis what comes across the border and the barrier. I think you identified it by that example. In fact there is a piece of cargo or—

CHAIR—In this case, a service.

Mr Wallace—A service where goods actually arrive across the border. They did not have enough people to check all the cargo which is why historically they slipped to a screen free situation. We do have a software program in place right now which can identify every piece of cargo that comes across, and that could be equated back to a collection of GST. There is currently now company to company transactions which the Australian Taxation Office might not even know about. I dare say they probably do because we have honest companies here that report it, but that can happen.

CHAIR—Some companies may be less fulsome in terms of their reporting.

Mr Wallace—Yes, but when you have a piece of cargo coming across your border that is something you can audit trail and equate to a dollar sense. There has to be some value on it.

Senator CONROY—Even though in Senator Cook's example it is a service that is passed between two Australian residents in Australia, you are describing a situation where a good comes into the country. Is it possible to follow Senator Cook's example for two companies to use the same payment mechanism but have the good already within Australia?

Mr Wallace—They do that now. There are intercompany payments that go from head offices in America, for argument's sake, to their branch office in Singapore where they manufacture the goods. The product comes here to Australia. The Australian company may be an international company. So no funds go out of Australia for it but eventually they do go through their systems. But the customs value currently is placed upon them to give us those documents that say what the value is. But we can equate it to a product that comes across. So there is no service that goes on, as the Senator's example was. The example of a payment does occur now. We can audit trail that against the actual piece of cargo coming across the border.

Senator O'CHEE—But in Senator Cook's example the transaction also fails part 4A of the Income Tax Assessment Act, does it not?

Mr Morris—Sure. With a physical importation it is very easy to see what actually is transpiring, but I make that only as a side comment because you might be importing footwear that has an intellectual property payment to a third party that relates to the transaction. That cost should be pulled up in the Customs value for determining the value of any duty and tax that is payable. But because it is not referenced in the cost of the goods per se; that is, the cost of manufacture, and it is a separate payment made here over a period of time or whatever the case may be, this time we have service options and we have physical options that do not match.

The Minister for Justice and Customs only recently was looking at some of those issues where goods have been imported into Australia where the intellectual property in relation to the goods had not been declared to Customs. It is an easier process to determine—I have a good, equate me a value—than what is the value of a service. The value of the service is really only what you want to put on it, and you might suggest that in relation to goods themselves. But at least you have a benchmark in the marketplace that a glass is a glass that costs.

All we are trying to suggest here is that what we are seeing is a process that will continue to grow. The leakage of revenue will continue to grow as Internet trading grows and perhaps an opportunity would exist in terms of looking at the legislation. Maybe items 32A and 32B should not be non-taxable importations but should fall elsewhere. The ATO may have a different perception as to what it sees in terms of revenue options and revenue leakages from that of the Australian Customs under the Internet inquiry.

Senator CONROY—I just wanted to go back to something you were talking about before: let's make the brave assumption that the package is passed and comes into effect on 1 July 2000. How long do you think it will be, on the sorts of estimates you make with the volume of stuff that comes across your desk, before any government, no matter which it is, is forced to revisit? If we do not do it now and take up your suggestion, how long before the leakage is of such a magnitude they have to act? Are we talking five years or 10 years?

Mr Morris—How long are you prepared to bleed and what is the extent of the bleeding? I would suggest that when we discussed the sales tax leakage with the ATO they said, 'All we have to do is ratchet up the company audits we are doing and we can recover this money tomorrow.' We suggested to them, 'We can give you the money tomorrow without ratcheting up your audits. You put in place a process that will cover it and you will get 85 per cent of the revenue that you are currently not getting and decided to forgo.' So how long would it take?

Senator CONROY—You are saying it is \$100 million. Do you have any suggestion that it is going to be \$500 million in 10 years or—

Mr Morris—All we could suggest to you is that in the TAB industry something like 5,500 bets are placed weekly through the Internet. Three months ago there were not 5,500 bets placed through the TAB on the Internet.

Senator HARRADINE—Are you aware of New South Wales legislation that came into effect from Monday in respect of betting and the obligations placed on the Internet service providers?

Mr Morris—No, I am not, Senator. I just used the exponential growth of the Internet as an example which was quoted to me—

Senator HARRADINE—It is interesting to note that the ISPs are being held responsible by the racing and gaming amendments for carrying content provided by unlicensed bookmakers. Where does the Internet service provider come into this? What sort of obligations should be placed on the ISP?

Mr Morris—That is a hard call. I would suggest that they are critical to what I was addressing with Senator O'Chee about having built into the system an opportunity for people to understand the legislative requirements because of so many options out there for people to purchase.

If there were an ISP requirement so that for any people who use you as the ISP there are ground rules so that, if they are product or consumer led providers of goods, they are required to do this, this and this, you are then getting down to the level that government would like to see, I suppose. But is that too intrusive by government? I am not sure, but I think the ISP providers would play a very significant role in integrating the government requirements into the services provided by all the people whose services they use. If it works for one government, it will work for all governments.

As I said, you can at this time click on to certain icons in places and find out what the customs duty rate is for importing goods into Singapore, you can find out what their VAT cum other tax rates are, and it is not too difficult to build into the process that computers can now collect the money. They really would not be worried about whether it is the correct amount or not, because that is a post entry audit option; what we are doing is getting money that we never got before and that we will never get unless we have a process in place early. That is for the myriad people. If you have four service providers bringing the majority of goods into this country under the express consignment operations and you require them to do this process, it is not difficult at all but it is a cost to their business and it is a cost that I would suggest to you they may not wish to absorb.

Senator O'CHEE—By 'service provider' in that instance, do you mean the carrier or the seller?

Mr Morris—No, it would be the person who has taken the products from a door to door delivery point of view—

Senator O'CHEE—The carrier?

Mr Morris—Yes, it is the carrier.

Senator O'CHEE—The consigner—

Mr Morris—Or someone contracted by the carrier to carry out that function.

CHAIR—Have you put all this to the government and, if so, what is their response?

Mr Morris—I think in real terms we addressed this to the government in the Internet inquiry, where I think, with the passage of time, the issue as to revenue leakage was not an issue that the government thought was particularly important. We addressed at that time that we saw that with GST the problem would be exacerbated. We leave it with the government to determine whether the amount of revenue leakage is significant to them, but I would suggest to you that if the process continues and goods are able to be brought in through this methodology you will find that retailers will enter into it to make themselves competitive, and people—and I suppose at the end of the actually it will be males who do not have a real bent for shopping—would find that this would be a better option than going down to whatever store to purchase the goods—'I know what shirt I want. I know what size I take. If it is not the one I want I can take it back.'

Senator HARRADINE—That would have a tremendous effect on employment in the retail industry here in Australia.

Mr Morris—We did flag at the time that if you had a boutique in the store and you did not need three or four people on the floor selling goods, wrapping goods, taking cash—whatever the case may be—the part-time employment options in which the majority of people within the large retailing sector are involved would be affected accordingly. We see some societal effects from this change in purchasing habits—very much so.

Senator GIBSON—Mr Morris, you are used to doing these sorts of transactions through customs processing: if the express providers had an obligation to do this entry via a smart program, do you have any idea about what sort of costs we are talking about? Are we talking \$1 or \$5 an entry?

Mr Morris—Since it would be cost recovered in terms of the service provision anyhow—

Senator GIBSON—Yes, I know, but I just want to know how big a—

Mr Morris—We saw it at the bottom end of the scale in terms of cost, and I would suggest that at the moment to do a formal airfreight entry that may have no duty and tax payable to it is about \$32 to the government. I would suggest that with a very simple self-assessed screen free process, you would be able to run it for about \$5—for less than \$5. To create an entry is less than \$5 in technology terms.

Senator GIBSON—What you are talking about today is really an Internet problem rather than a taxation legislation problem?

Mr Morris—It is the tax leakage that will occur through the Internet, so it is a chicken or egg type of situation—and it is building that process, so it linked in our eyes, because the revenue that is perceived will not be there.

Senator GIBSON—If the government took up your suggestion and made changes at some time along the lines that you have suggested, is that going to provide a significant amount of additional work for your members?

Mr Morris—No, because the people who would carry out the transactions would be the importer in his own right—because it would be simplified process so you could go onto the Internet and do it—or, conversely, the major service providers, who would continue to provide that to their clients. This is not about a revenue option for CBCA members.

CHAIR—You are raising this in the national interest.

Mr Morris—Yes.

Senator CONROY—You indicated before that you can get most of the freight people—Ansett Air Freight or whoever is going to do the express delivery—but is the actual mail side going to be a problem in your system?

Mr Morris—No, because the mail-order side is usually done through a service provider to deliver the goods. You might purchase from Coles Myer—just to use any name—but Coles Myer will have a contract with a service provider in the express carriage industry to deliver.

Senator CONROY—So if I log on and order a book from Amazon and they send me a book in the mail—

Mr Morris—They will not do that.

Senator CONROY—They wouldn't send a book through the mail? It comes through a registered provider, does it?

Mr Morris—You would find that, because of the way that they operate, it is all about delivery in a timely manner, and the express carrier industry performs that function extremely well. They deliver on time.

Senator CONROY—Would it be the same situation if I ordered a CD? They are unlikely to say, 'Here is our way to avoid this: we will set up this whole new system.'

Mr Morris—No.

Senator CONROY—Could they send it by registered mail?

Mr Morris—Registered mail might take seven or nine days from the time you put it into the mail in New York until it is delivered here in Australia—whereas the others will guarantee you door-to-door service in 48 hours.

Mr Wallace—To add to that, most of the service providers are actually service providers on behalf of the supplier, and so it is really right out of the control of the purchaser here. They normally nominate who they want to go through, and most of them are the service providers. This is a revenue leakage issue that we see will grow; and it was a national interest issue. In addressing the other part, if you would like to move away from that—

CHAIR—Before you do that, I wish to say quickly—because time is awaxing—this exists irrespective of whether there is a GST. If I wanted to buy a PC on which there was wholesale sales tax, I could do in this way and avoid it, couldn't I?

Mr Morris—Yes.

Senator CONROY—You are saying that it is making it worse, though, with a GST.

Mr Wallace—We go to history once again. These items really exist, and screen free actually existed, because the customs were actually physically checking the documents as they came across the barrier, and it was recognised that at Mascot there was no way in the world that they had enough officers to do this correctly, so they started to screen them manually. What has happened is that that has been kept in place. In 1998 we went to total electronic lodgement by the service industry providers. You tell us what the documents are, and the computer will do the rest of the work profile, et cetera. In 1988 there was an opportunity to do this then, and it has been put at the back; and this is another opportunity to look at it once more.

Mr Morris—It is all about non-government intervention and self-assessment.

CHAIR—Getting the electronic transfers up in 1988 was quite a big task. I take your point, Mr Wallace, but Australia and New Zealand were the first countries in the world to

actually do this on a full-scale basis at the time. It does not diminish your point but it ameliorates it, I guess. Mr Morris, you were about to launch into the second part of your submission.

Mr Morris—This is an issue that we flagged for the administrators of the process to come up with an answer on. In terms of exemptions and of services that relate to goods being imported into this country and to goods that could go to international handling, loading and so on, we see it as quite unclear whether certain services will fall within or without the process. It is not an issue which is as catching as the other. It is all about the administrators having a look at this particular aspect, because the majority of goods that are delivered into this country fall within the cost insurance freight situation: delivered duty paid into store or delivered duty unpaid into store, particularly in our trade with New Zealand. There is a significant number of services here where we have to work out whether the services fall within or without the taxable transaction.

Part B of our submission, which is covered on pages 4 and 5, relates to procedural matters and administrative issues that need to be resolved well in advance of 1 July 2000. As I said to you, at that time this industry sector, which runs through about 450 companies, will be a funnel for government of anywhere between \$6 and \$8 billion of tax, because everything that comes into this country is subject to a GST, from a \$440 million jumbo aircraft to \$2 million worth of products purchased for resale. It will be these types of issues that result in certain amounts falling out of the GST equation or being included back in. We flag that one for the administrators to look at.

We just come back to the wide scope of the terms of reference and bring these two issues before the committee for them to make pertinent comment for the appropriate people within government or within the ATO to address and follow up.

CHAIR—I would urge you to put them directly to the government and the ATO. We are, after all, representative of the Senate, which is just one chamber of the parliament, and we are not the executive. The executive wing should properly deal with this. Nonetheless, I think all of us have felt that your submission and intervention this afternoon have been very worthwhile. Thank you for assisting our inquiry.

[2.58 p.m.]

CASTLETON, Mr Peter John, Government and Public Concerns Portfolio, FIA National Council, Fundraising Institute Australia Inc.

FLACK, Mr Ted, Fellow, Fundraising Institute Australia, and Director, Third Sector Management Services Pty Ltd

CHAIR—Welcome. Thank you for making yourselves available a little earlier than the appointed time. It certainly aids our logistics. We next move to Sydney after we finish in Brisbane. Please give us a brief overview and make yourself available for questions.

Mr Flack—I am a fellow of the Fundraising Institute Australia and have been involved in charitable fundraising for about 23 years. I helped put the submission together through my company, Third Sector Management Services, on behalf of the Fundraising Institute Australia, in a role, if you like, as the chairman of a working group on the likely effects of the GST and the proposed tax changes on charitable fundraising in Australia.

Mr Castleton—I am the government and public concerns portfolio holder on our national council. Fundraising Institute Australia has been in existence now since 1968 and represents the people who actually work in the fundraising profession right across Australia. We have 1,050 members and we have just finished yesterday in Brisbane our 22nd national conference. Like Mr Flack, I am a fellow of the institute. Apart from a full-time executive officer and secretary, the whole of the institute in terms of its role with FIA are volunteers. So we are here in a voluntary capacity and, although we have done a joint submission with Third Sector, Mr Flack is doing that as part of his commitment to the industry and to the institute.

CHAIR—Just to be absolutely sure, Mr Flack, as well as representing the Fundraising Institute Australia you are representing Third Sector Management Services?

Mr Flack—That is right.

CHAIR—The ball is in your court, gentlemen.

Mr Castleton—Mr Flack is going to go through some of the research he has done over recent times relating to this and bring back the feedback from our membership. This was a very hotly debated topic at the three-day conference we have just finished in Brisbane.

Mr Flack—The submission is succinct and does not provide a great deal of background to the role of charitable fundraising in Australia, so I think it might just be worth a minute or two to give you some scope and size of it. The best estimates are that about \$8 billion are raised by not-for-profit organisations in Australia each year by way of fundraising. Fundraising is not easily defined, there is a wide range of definitions of it, but the indications are that we have a pretty sound basis for saying that about \$3 billion is transferred by way of donation, non-reciprocal transfer, and would be outside of the GST. About \$5 billion comes from a variety of sources. We think \$600 to \$700 million comes from charitable gambling products of various sorts, between \$800 and \$900 million

from special events, benefits and that sort of thing, and between \$300 and \$400 million from charitable merchandising. So it is a very large sector of the Australian economy and represents possibly between eight and 10 per cent of the gross national product of the economy.

The charitable fundraising economy is not easily quantified because most of the organisations involved in charitable fundraising are tax exempt and do not have to provide a tax return, so the availability of hard data is very limited. Secondly, even the data that is available, by either survey or collections of data such as the Industry Commission did some three or four years ago, is fraught with difficulty because of the lack of accounting standards that are uniformly applicable across all charitable organisations.

Having said those few things, we turn to the new tax system and the GST itself. In general, theoretically, if you like, the taxation proposals obviously support a more sustainable tax base for Australian governments and GST will provide a significant replacement source of that stream of funds, particularly to state governments. Fundraising, on the other hand, provides resources to a civic society, a minority issues range of purposes when citizens band together to do something about an issue that perhaps is outside of the sorts of issues that are being addressed with the resource base that will be applied from GST. So any public policy change that affects the flow of those fundraising dollars to the charitable purposes will not necessarily be replaced by the advantages of GST. They are for very significantly different purposes.

The Fundraising Institute does not have a view that is opposed to the concept of a GST. Our general position is that we need to make sure that the administration of GST and, particularly in areas of definitional difficulty, the impacts of the imposition of the GST and the other changes do not have an adverse effect on the resources flowing to not-for-profit organisations. It is worth bearing in mind that the major advantage of GST, particularly to the commercial sector, is that it replaces the indirect tax base and frees them from the cost of that indirect tax base. In a very real sense it becomes neutral to them in that sense. For not-for-profit organisations, that is not the case. Not-for-profit organisations, particularly charitable organisations, are already tax exempt, so, although the flow-on effects down the track may well be beneficial, directly there is really no benefit to the charitable organisations by the removal of the indirect current tax base. They do not pay it.

Therefore, the Fundraising Institution's view is: how can we ensure that the GST neutral, the revenue neutral, the tax neutral position that is there theoretically for not-for-profit organisations remains there when it actually hits the ground? Particularly, how can we ensure that the flow of resources from fundraising is not adversely affected by those changes? We have done an analysis in our submission of how a GST affects each of the major sources of funds for not-for-profit organisations, particularly for charitable fundraising organisations. As I have said, theoretically they are tax neutral. However, I would like to suggest to the committee today that the actuality is significantly different from the theory.

One needs to understand that a very significant proportion of funds raised by charitable organisations are raised by volunteers. In volunteer environments, the discipline necessary under a GST to accurately and thoroughly collect all your input tax credits to ensure that the GST you paid properly offset on those taxable items is thoroughly collected and properly

brought to account is going to be very difficult indeed. You can imagine that at a fete run by a school or a charitable organisation they will have a mix of taxable and non-taxable transactions. You can imagine the wash-up after the end of the fete, trying to allocate which tax inputs went to which cake stalls and which rides, and all the rest of it. It will make it very difficult indeed to expect that volunteer base, on which we rely very significantly, to be trained up and disciplined enough to ensure that there is not a tax leakage away from that theoretical neutral position.

This is our major concern. If the cost of compliance is significant—although we understand from our New Zealand and UK confreres that that washes through over time—in Australia, with our tradition of charitable fundraising on a volunteer basis, it will be difficult to actually get the training. Can you imagine the volunteer Treasurer of the local organisation, if he or she decides to stay, under the very difficult circumstances of the compliance issues? The training required to ensure that there is not a tax leakage away from the organisation will be very significant and difficult, frankly, to expect. In other words, what we are really saying is that we believe strongly that what will happen is that those volunteer roles will have to be supplanted by professional roles, and professional roles cost money. That will be a direct cost on the net flow of those funds to the charitable causes concerned. That is our first concern.

The second area of concern is the charitable gambling area. We firmly believe and would commend to the committee consideration of what should be the GST-free nature of charitable gambling products. Because all of the net income from charitable gambling must, by law, in all states in Australia, be applied to the charitable purpose, a 10 per cent GST on the gross margin of charitable gambling is simply a 10 per cent tax on charity. There is no alternative to that. It would seem to us that there is no competitive neutrality issue for real because charitable bingo or charitable art unions are not run for profit. They are not directly competitive. The issues therefore do not hold water, either from the point of view that we should do this for competitive neutrality reasons or from the fact that somehow this will be fair treatment across all sectors.

CHAIR—I am not wanting to interfere with your presentation, but we also heard this argument in some detail from the Royal Institute of the Blind in Perth, given that their biggest fundraising activity is bingo.

Mr Flack—I will not take the matter any further then—you have heard the discussion.

CHAIR—No, don't let me curtail your submission. I just interject with that.

Mr Flack—We certainly think that there is room for consideration of a GST-free category for charitable gambling. The third area I would like to draw to your attention is the very real anomaly with the memberships of charitable organisations. Membership of charitable organisations is not a service to the people who become members of the organisation; it is a governance issue, it is a civic engagement issue. Most charitable organisations provide membership services at less than the price of the membership. So the idea that you should apply a 10 per cent GST to somebody who provides \$10 a year membership fee for the XYZ charitable association, on the basis that it is a service, is simply not so. They are memberships in order to engage people in the life of the organisation, to

give them a vote at annual general meeting time and to keep them informed via an annual report. They are not a service in the same way that a professional association service is. We strongly commend to you the idea that the membership of a charitable, tax deductible organisation should be GST free. We are not saying that they should be GST free across all professional associations—those sorts of fees—but that those memberships that are really outside of the sense of a service to the members should be GST free.

The fourth area that we would like to draw to your attention is the question of fetes, fairs and amateur entertainments. In other jurisdictions around the world, an exemption has been given where the activity is essentially a community entertainment—it is a fete, a fair or whatever. We understand that things like donated goods on white elephant stalls are all outside the GST net, but a number of other transactions occur, particularly for instance where a group of members of an organisation club together sugar, flour and eggs to make cakes. Under the current arrangements, they would fall within the GST net because those donated goods are being transformed. The idea that the lamington drive should be GSTed in that way I think is really outside the spirit of what is going on here. Our members feel that the efforts to ensure that the volunteers comply in that way would cost more than the cakes, for goodness say. It is really a disproportionate response.

Those are the key recommendations. You will find them on page 20 of our report. We would like to end with this statement. Bearing in mind the issues about compliance that we have talked about, as the government has indicated that there will be a significant sum set aside for transitional compensation, we would like to suggest—on the basis that the estimates are that eight per cent of the gross national product are in this area and given that the volunteer nature of the sector will increase those compliance difficulties—that some 10 per cent of that pool be set aside for the charitable, not-for-profit sector compliance issues. Those are the statements we would like to make. Peter and I will be happy to respond to any questions you might have.

CHAIR—Your fundraising activities are on behalf of essentially charities, are they?

Mr Flack—Yes.

CHAIR—Can you quantify the reduction in the funds that you will be able to raise as a consequence of the new tax measures?

Mr Flack—It is not easy to do in terms of the modelling. We do not have the resources to do the economic modelling. We can pick out some bits. In relation to the submission that we put to the Productivity Commission's gambling inquiry on the charitable gambling area, if the best estimates—these are difficult to quantify in hard terms—of \$600 million are estimated, that is a \$60 million loss to charitable organisations by the imposition of a GST on the gross margin. The issue of whether the states will come to the party and reduce their charitable gambling taxes is a moot point. That might be offset by some of that, but we do not know that and there is no indication from the government's documents as to whether that is on. So that is an area that we can quantify. In terms of fetes, fairs, bazaars and charitable entertainments, it is really beyond our resources to do the modelling that would be needed to quantify that.

CHAIR—We heard last Wednesday from the Kalgoorlie swimming club that the hardest job for them was to find someone silly enough to be Treasurer. They said that with the GST it would be even harder because they would have to then deal with all the compliance measures and that this was a serious impediment in quite a small club trying to struggle to provide an alternative venue to keep kids off the street by providing a sporting outlet. Can you confirm that that is the sort of general type of approach that the organisations you are dealing with have? Is that typical or not?

Mr Flack—Absolutely. I would suggest to you that the accountability regulatory framework for charitable organisations in Australia has significantly increased much greater scrutiny in terms of compliance with state. A variety of other regulatory frameworks have made the business of being a volunteer member of a management committee a significant worry to ordinary citizens. The compliance issues associated with the new tax system, GST, would compound those issues particularly with regard to the liability for compliance and the personal liability that would come with that.

CHAIR—With all the qualifications you have put on the \$60 million that would be syphoned off—accepting all those qualifications but using that figure as some sort of benchmark figure—can you give us the sorts of organisations that might be most affected by that? What types of charities would be the ones that would bear the brunt of that loss?

Mr Flack—In relation to the largest slices of charitable gambling in Australia, charitable bingo in Australia in 1998 was estimated to be worth between \$200 million and \$300 million. Who are the organisations involved in charitable bingo? There is a very wide cross section, but I would suggest to you that many private schools and parochial schools are involved in bingo, particularly the Catholic schools community and particularly in Queensland. Queensland would be particularly hard-hit because charitable bingo in Queensland, because of regulatory frameworks, is probably bigger on a pro rata basis than anywhere else in Australia. Major art unions such as Boystown, the Endeavour Foundation, Surf Lifesavers, the RSL and retirement homes all have very large multi-million dollar major art unions. By that I mean the sorts of properties and homes for \$5 a ticket and those sorts of issues.

There is not a particular class. I think what you would have to say is that there would be a range of organisations, some large but some small community organisations in many country towns and regional areas. Bingo, lucky envelopes and raffles, particularly chook raffles—the small raffles for football clubs and all those sorts of issues—would be hit by this \$60 million direct loss that we have been able to identify.

CHAIR—My final question is a fairly standard one that I ask people who are making submissions to this inquiry. The government said that it will not amend its legislation. You are seeking amendment or improvement in the legislation to meet this need. If the government is to be taken at its word and believed and it does not amend it, you will be in exactly the same situation that you are in now in that you will be facing a \$60 million shortfall.

Mr Flack—And that is just on charitable gambling, if I might say.

CHAIR—Just on charitable gambling, yes. What is your view if there is no amendment? Do you support the legislation or not?

Mr Flack—The institute's instructions to us is that we are neither for nor against the introduction of a GST and the other raft. What our members would want is for the proposals in the draft legislation at the moment to be amended in such a way at the margins to ensure that what we believe are unintended consequences are ameliorated to ensure that the GST remains as it is promoted to the Australian community—that is, tax neutral for charitable organisations.

CHAIR—But we are often in a situation where we have to deal with what is in front of us. You have answered my fairly direct question by saying what you would like. If you do not get what you would like, where do you stand then?

Mr Flack—Our members do not formally represent the charities for which they work, so it would be inappropriate for the institute to make such a recommendation to you. What I would suggest is likely to happen is that each and every one of those organisations will take its own political decisions both locally and through their organisational bodies such as people like ACROD and a variety of others to influence the political process.

Senator GIBSON—In your assessment, how many of the organisations that your members work for would come under the \$100,000 registration threshold?

Mr Flack—Virtually none.

Senator GIBSON—Really?

Mr Flack—To have a full-time or even part-time fundraising officer or fundraising manager you really need to have a larger threshold than the \$100,000. That does not mean to say that many of the organisations with which we deal are not those organisations, but we might consult to them on a part-time basis or on an incidental basis rather than work for them, if you take the difference. The question is this: will it be advantageous for organisations under the \$100,000 level to register or not? The modelling that we have done or the examination of those issues that we have done suggests that each one will have to make a very careful assessment on the basis of their product mix, their fundraising mix. So there is no general rule.

Senator GIBSON—You made mention of fetes, fairs, bazaars and stuff, but isn't it likely that, in most of those circumstances, the rule about supply at less than 50 per cent of commercial price would apply?

Mr Flack—I would not suggest so, no. I would say that if you go to a cake store or a jam store they are not going to be at a 50 per cent discount to the regular price. They could be, but the sector would be taking a significant discount on its current income if it were to price position its goods so that they were 50 per cent less than the current market value.

Senator GIBSON—Sure, but I am referring back to the Vos report. That was a recommendation of that committee to the government. As you know, the government has

basically picked up that committee's recommendations in full, plus some. So I am a bit surprised by that.

Mr Flack—Let me throw you some examples. At a face painting stall, the price paid for the face painting would be very similar to the price paid at the local face painting stall in the local council fete day, which is not a charitable event.

Senator O'CHEE—How much did Sports Illustrated pay for Sarah O'Hare's paint job?

CHAIR—That was not face painting, Senator O'Chee.

Senator O'CHEE—I thought she got painted on the cheeks.

Mr Flack—The jams, cakes and pot plants that are sold would not be a 50 per cent discount on current market value.

Senator CONROY—Since sponsorships from financial institutions are input taxed, they will not be able to obtain a credit for a GST?

Mr Flack—That is right, as we understand it.

Senator CONROY—That will potentially reduce the donations you get, or might it stop them altogether?

Mr Flack—There are two scenarios: either the sponsorship would be provided at its regular value plus the bill for GST, or the sponsorship package will be discounted by the amount of GST to keep the transaction at the old level. That would be market behaviour that they would determine.

Mr Castleton—To give you an example, Senator, in 1996 the direct giving in the corporate sector was assessed in Australia at \$150 million and the sponsorship income was \$1.3 billion, so it is a significant area of support for charitable organisations that our members work in.

Mr Flack—Some of the definitional issues are really serious ones there. What is a sponsorship and what is a donation? The definitional issue arises if an individual says, 'I will give you \$100,000; all I want is my name over the wing of the children's hospital,' or whatever—is that a sponsorship or is that a donation?

Senator CONROY—That is a good question. We had a report yesterday from a senior officer of Perpetual Trustees which indicated that it is taxable and could cause a considerable problem to a potential donor—to someone who thinks they are doing a charitable purpose—because their name is on the door and they are actually getting a benefit.

Mr Flack—The current ruling of the Income Tax Assessment Act—recognition only for tax deductible donation purposes—is fairly clear. The token can be a badge or a certificate saying thank you or whatever, and that does not interfere with the tax deductibility of the donation. But we would need to bring the GST administration into line with that to ensure

that there are differences. Otherwise you would have distortions—leakages—going both ways.

Senator CONROY—I think Senator Cook indicated that we heard from the Royal Institute of the Blind last week. They argued that they are not currently taxed by any form of state taxation therefore any proposed reduction say, in state gambling taxes, was of no potential benefit to them whatsoever even if suddenly Jeff Kennett and all the rest of the state premiers decided to go in that direction, it would actually not offset the problems from the Royal Institute of the Blind.

Mr Flack—The public benevolent institution which is, if you like, the most tax-free organisation—and I think the Royal Institute of the Blind is one—enjoys tax exemptions from all the state taxes, too. So the only one that I know of that they would pay would be any fees on licences for charitable gambling. In Victoria they are very light but in Queensland they are much more significant, based on a percentage of the turnover, so different states have different environments. I think in some states they are token application fees rather than true licence fees.

Senator GIBSON—Could I just follow up one question from Senator Conroy. With regard to sponsorship, any GST paid for sponsorship will be an input credit to the business organisation that is paying for it, so there is no real cost addition to them to continue paying your clients the same real amount as at present.

Mr Flack—Theoretically, there is no problem, unless the sponsor decides, ‘Why should I pay sponsorship of the old amount plus the GST, why shouldn’t I just reduce my sponsorship to take the GST in?’ There is nothing in the marketplace that will stop him doing that so we take the 11th discount.

Senator GIBSON—Sure, but it really means you have a selling job for your clients.

Mr Castleton—And with the covenant system in the UK, which is one of their systems of managing charitable donations, many corporate donors do it that way, where they gross up to the total amount and pay the tax as part of the gift.

Senator CONROY—In terms of the major donors—and banks and other financial institutions are major donors—they do not get any input tax credits.

Mr Flack—That is true. Those areas that do not get the credit, particularly the Westpacs and those sorts of people—

Senator CONROY—Absolutely, and they are some of the major sponsors of these sorts of things—

Mr Flack—And sponsorships from those sorts of areas will simply become 10 per cent more expensive.

CHAIR—Just going back to the \$60 million that will be lost to the charitable area, why isn't there a reasonable rejoinder of, 'Mr Flack, why can't you just redouble your efforts and raise more money to compensate?'

Mr Flack—Because it is an never ending cycle: the more money I raise, the greater my gross margin, the greater the GST I have to pay. So I cannot catch up on the gross margin, because it is the gross margin that is being taxed, not the tickets in the art union.

CHAIR—Is there an amount of money in Australia that is generally regarded as available for charitable donation? Is there a market here and do you get to the point of market saturation?

Mr Flack—There are a lot of theories around the world and in Australia on that. Anecdotal evidence is that it is an inverse proportion to the economic environment. In other words, in tough times there appears to be more money made available for charitable purposes than in good times. I do not know why that is. It is something to do with the psyche of the deal, that there are more people in need in difficult times. It appears that is the case. There is also evidence that the natural disaster kind of appeal, the cyclone, the flood or whatever, does not steal market share, it adds to the market, then it goes back again. We do not have any firm data on that. I think it has more to do with cultural and psychic issues than it has to do with market issues. It has more to do with those rather soft data issues.

CHAIR—It is quite a nice commentary on an Australian mentality that, when things are going tough, Australians are prepared to dig a bit deeper and, where they see a tragedy like a bushfire, they are prepared to top up what their normal charitable contribution is because there is real need. It is a very nice dimension of the Australian mentality. It may not be true only of us—

Mr Castleton—It has been a trend over a long period: we are quite a generous nation in that regard.

Mr Flack—On the other hand, our levels of charitable giving on an international basis are well down the totem pole.

CHAIR—Are they? How do we rank on an international basis?

Mr Flack—Again, because of data collection problems, it is not entirely clear, but we are well behind the United States and we are significantly behind most of the European countries.

CHAIR—Let us say you said to me that we are well behind Japan, which has a very low tax rate and a very low or virtually non-existent welfare net. It is not to do with the degree of welfare provided in a country, it is to do with the perception of need by the citizens of that country. Europe has a welfare net that is about the same as ours—sometimes it is higher—but they are bigger donors, despite the government provision for security.

Mr Flack—I have to say that the comparability of the data is awkward, it is difficult, because you have different industries being provided by charities in different countries. In

Australia you might have a different proportion than somewhere else. There are very few private universities here, for instance, but in the United States they have a very large private university sector. So the comparability of the data between nations is not terribly good.

CHAIR—Just coming back to where I started out, it might be that, if there is a perception in the broader Australian community that as a result of this tax people in the charitable sector are doing it harder, on your evidence, there is a willingness to dig a bit deeper and top them up. Whether they like it or not, it is a recognition of need. That may compensate for some of the loss of the \$60 million.

Mr Flack—My experience has been that explaining to somebody that taxes have gone up will not be the basis for more donations. The cost of compliance—the fact that we are now going to have to have an accountant full-time in our organisation—is not going to be the issue around which people are going to give more money. I do not think that necessarily follows.

CHAIR—So this nice trait in our national personality is not likely in this case to result in a bigger flow of funds to the charitable sector?

Mr Flack—I would suggest not, sir.

CHAIR—How is the charitable sector, since you work closely with them, going to cope? Is there some way out for them to solve their problem?

Mr Flack—My guess, frankly, is that they will simply be going to their local members of parliament and to the government of the day for a greater proportion of the grants and subsidies rather than generate the dollars themselves.

CHAIR—I am asking this because one of the elements of the evidence provided by the Kalgoorlie swimming club was that they provided a resource which attracted young kids into recreation, that it was a positive role in their leisure time and kept them off the streets. The person making the presentation, the president of the club, was a local barrister or solicitor, and he said that never had any members of his club gone before the courts but that kids who were not organised in sport or some such thing were more likely to. A lot of the charitable organisations that you are talking about are sporting clubs or clubs that perform a function like that. Is there a hidden social cost here? If they cannot raise the money to keep their organisations afloat, are we looking at the prospect of having to pay a bill socially in some other way—either by a higher crime rates or by not having available kids with a positive attitude looking for work or whatever?

Mr Castleton—We think there would be a real chance of some of the smaller organisations going out of business completely, which would have a cost to the community, and that some of the larger ones—whilst there would be that take-up of the lobbying process to get more grant funding—would in fact reduce services. I believe, and I think our members would believe, that there will be a cost if some of these small items that Mr Flack has mentioned are not addressed in a positive way.

The cost of compliance, certainly at this recent conference where we had a significant turnout of people, was a very major issue. For organisations which currently have an honorary treasurer, they may well have to pay someone to do that, because of the level of sophistication, which, as you indicated, was one of the concerns of the swimming club in question.

Mr Flack—I would just add that civic society argument. To get people in a local community to engage in the causes that matter to them is a very important part of Australian life. If you create environments—and not just by the GST but with other issues—which make the job harder, more difficult, less attractive and more fearsome, the ability to engage people in that sort of activity has to be affected. That perhaps is the single most significant cost of this issue, unless we can find ways of humanising the implementation.

CHAIR—It was submitted to us—with some passion, I thought—by the Royal Society for the Blind the fact that many of its officers work for incomes or wages that are well below what is considered the norm in the broad community for positions of equal responsibility and skill. Representatives from that organisation cited a range of officers. They went on to argue that, in making an idealistic contribution to the objects of the organisation, there is however a limit to what you can ask people to forgo in income. In your experience, is that also true more widely?

Mr Flack—I can only speak for fundraisers. Fundraisers are the sorts of people who, after the event, end up stacking the chairs and closing the hall. They are the people who, beyond their wages and salaries, if they are employed that way, end up making a significant voluntary contribution to their organisations.

The pressure to find the same dollars we got last year plus new dollars weighs heavily. But that is life. With the belt perhaps having been tightened because of our income from charitable gambling being reduced by one-eleventh, it is difficult to imagine that there will not be a significant amount of agro. That is the way people would feel, I am sure.

CHAIR—But already, because of idealistic commitment to the cause, people are accepting lower salaries than those perhaps available to them for jobs with equal responsibility and skill in the wider community. Now those people are being further caught in their organisation; with there being fewer funds, they are being asked to wear the burden of reduced income. Some might; many may not. However, that all comes down to a reducing ability to raise funds to meet the need in the first place, does it not?

Mr Flack—If we make it more difficult to raise funds, it seems to me that we have two responses. Firstly, we have to get better at it; and, secondly, inevitably we have to work our people harder. I cannot see there being any other alternatives.

Mr Castleton—People who work in the fundraising field do not necessarily tend to be looking for the highest salary level because it is just not there. If you negotiate, as I have done, with major organisations to employ a fundraising person or to locate somebody, you are always looking at a significant amount—sometimes 10, 15 per cent—below the market rate of a similar person. So that person has to be imbued with some passion for the community. Then they go and work within an organisational structure for the cause, or they

simply get bored or disconsolate and leave. So people who last in the fundraising profession—I think Mr Flack would agree with this—do so because they have a fair degree of that commitment that you have just indicated.

CHAIR—Is this a fair conclusion: if there is less money available, that will in some respects—perhaps not wholly, but in part—reflect on the amount of salary available for fundraisers and result in fewer fundraisers in the longer term?

Mr Flack—That is possible.

CHAIR—That would mean you are caught in a downward spiral.

Mr Flack—It is possible.

CHAIR—Is it likely?

Mr Flack—My guess is that we are trying to determine how much of a commitment these people have, and how sensitive to price changes and wages they are. I cannot answer that for you.

Senator GIBSON—This ANTS package will significantly reduce the cost of running businesses in Australia. The Treasury estimate is 3.2 per cent across the board, basically, on average, for every business in the nation. Won't that make it a bit easier for you to market the idea of sponsoring and giving help to your organisations?

Mr Flack—Yes. If you believe that the savings made by business might be re-apportioned to community purposes, then that certainly would be so. My guess is that that is not the case; that the overall proportions will remain the same. By losing our tax advantages, if you like, in this mix, we will have a GST which will cost us to comply with. That will have the deleterious effects that we have talked about, and we will pass those benefits to our commercial friends. The cost of doing what it is that we are about to do will be borne by charities that have not had to bear it before, and the benefits will be reaped by our commercial friends.

I will give you an example. With the fringe benefits tax issues, there is a classic example where it is intended to reduce the tax expenditures on FBT in order to reduce company tax rates to 30 per cent.

Senator GIBSON—I do not think that is related, but anyway.

Mr Flack—It is part of the equation, is it not? Isn't that part of the equation?

CHAIR—I am sorry. I am not sure what is going on here. You have just asked a question, Mr Flak. I am not sure—

Senator GIBSON—Mr Chairman, I think we are getting into the thick of business tax issues, which are outside our purview.

Senator HARRADINE—I feel that there might be other major issues involved there.

Mr Flack—I suppose the issue is: will commercial behaviour bear out what you say? We do not know.

Mr Castleton—Will the shareholders who are being blamed for a lot of the profits being made by the companies now be prepared to make a further allocation or endorse their executives for making a bigger allocation to the charitable purse? We would argue, probably not.

CHAIR—I would make this comment: I think it is fair to say that Senator Gibson is a terrier on this point. That only goes to demonstrate that a tax cut is being spent. It was spent on the distillers this morning; it was being spent on something else with local government and so forth after that. The balance you are left with in this tax cut is an arguable amount from which to reap benefits.

Senator SHERRY—National saving will be boosted as well.

Senator GIBSON—Thank you, Chair.

Mr Flack—My learned assistant here has provided me with evidence of what I said before. Perhaps I can show that to you afterwards.

CHAIR—If it is reasonably brief, you might show it to us all.

Mr Flack—Yes. I refer to the Ralph committee issues. The Ralph committee also includes ‘the revenue raised for such a measure to offset the reduction of company tax from 36 to 30 per cent’. There is a table showing that one of the areas of tax expenditure savings available would be the savings of FBT, in order to assist in the reduction of the rates.

Senator GIBSON—I agree with that, yes.

Senator HARRADINE—Nobody knows; it is only one of a range of movements.

Mr Flack—Yes, that is certainly so. Mr Chair and committee members, thank you for listening to us.

CHAIR—Mr Castleton and Mr Flack, thank you for aiding our inquiry in the manner in which you have.

Committee adjourned at 3.49 p.m.