



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

SELECT COMMITTEE ON A NEW TAX SYSTEM

Reference: A new tax system

FRIDAY, 19 MARCH 1999

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SENATE
SELECT COMMITTEE ON A NEW TAX SYSTEM

Friday, 19 March 1999

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

Substitute members: Senators Brownhill, Chapman or Watson for Senators Ferguson, Gibson or O'Chee; Senators George Campbell, Mackay or Murphy for Senators Cook, Conroy or Sherry

Participating members: Senators Brown, Colston, Harradine and Margetts

Senators in attendance: Senators Cook, Gibson, Harradine, Mackay, Murray, O'Chee, Sherry and Watson

Terms of reference for the inquiry:

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

in the proposals, under the following scenarios:

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

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

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

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

Committee	Matters for Inquiry
Community Affairs	<p>The impacts of the Government's taxation reform legislation proposals on the living standards of Australian households (especially those on low incomes), including:</p> <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.
Employment, Workplace Relations, Small Business and Education	<p>The employment incentive and education impacts of the Government's taxation reform legislation proposals, including:</p> <ul style="list-style-type: none"> (a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability; (b) the effects on employment; (c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services; (d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources; (e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students; (f) the effects of the proposed changes to the tax system on employment; (g) the effects on wage costs, particularly if the basic necessities of life are taxed;

	<ul style="list-style-type: none"> (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.

PATTERSON, Mrs Anthea Edwina Tangye, Member, National Small Wineries Coalition	2104
ROBERTS, Mr Michael William, Manager, Tourism Council Australia (Tasmania)	2116
STEVEN, Mr Antony, Executive Director, Retail Traders Association of Tasmania	2149
WELLS, Mr Geoffrey Graeme, Member, National Small Wineries Coalition . . .	2104

Committee met at 8.50 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 1998. This hearing relates to the second stage of the inquiry. In this stage, the committee is examining the broad economic effects of the government's taxation reform legislation proposals. It will have regard to the fairness of the tax system, the living standards of Australian households, especially those on low incomes, the efficiency of the economy and future public revenues. The committee will report on the second stage of its inquiry by 19 April 1999. This committee called for submissions to be lodged by 29 January 1999. In fact, the committee is still accepting submissions and so far has received almost 1,400.

This is the first public hearing to be held by the committee in Hobart in the course of this inquiry. In addition to this hearing, the committee will be conducting further public hearings around Australia. The committee has released the submissions relating to stage 1 of the inquiry and 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 the submissions made by those witnesses who are giving evidence today. Is it the wish of the committee that submissions 1322, 1264, 1266, 84, 1397 and that of the Tasmanian government be made public? There being no objection, it is so ordered.

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 that 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.

[8.52 a.m.]

ALTHAUS, Mr Hans Peter, Member, National Small Wineries Coalition

BULL, Mr Geoffrey, Chairman, National Small Wineries Coalition

BULL, Ms Lindy Marian, Coordinator, National Small Wineries Coalition

DUNCAN, Mr Ian, Consultant, National Small Wineries Coalition

PATTERSON, Mrs Anthea Edwina Tangye, Member, National Small Wineries Coalition

WELLS, Mr Geoffrey Graeme, Member, National Small Wineries Coalition

CHAIR—I welcome representatives of the National Small Wineries Coalition. You are looking at me, Mr Duncan, so I assume, therefore, you are going to lead on behalf of the Small Wineries Coalition. The normal format is that we ask you to briefly address your submission that has been circulated to the committee and then make yourself available for questions from the committee.

Mr Duncan—Thank you, Senator Cook. I am Ian Duncan. I am a consultant with Guy Barnett and Associates, Hobart. We advise and research for the National Small Wineries Coalition. The members of the coalition who are appearing before you today are: Mr Geoff Bull, from Freycinet vineyard, Tasmania; Lindy Bull, also from Freycinet vineyard, Tasmania; Mr Peter Althaus, from Domain A Stoney vineyard, Tasmania; Anthea Patterson, from Hartzview vineyard, Tasmania; Mr Geoff Wells, from Stirling Heights vineyard, Tasmania; and also in attendance, but not speaking to the committee this morning, is Mrs Susan Bull, from Freycinet vineyard. We propose to each have five minutes and obviously we welcome any questions or comments.

CHAIR—I am sorry to have to say this to you but we have got three-quarters of an hour. If all of you have five minutes, we would push our time. As chair, my inclination is to try to allow sufficient time for the committee to ask questions. I do not want to in any way cramp your style, but if we do not complete this segment on time, we are going to be behind for the rest of the day. So I am just a bit conscious about the time.

Mr Duncan—We will be mindful of that. I will be brief. The point I would like to emphasise initially—without traversing the contents of our submission, which I am sure you have been provided with previously—is that small vineyards around Tasmania and small wineries around Australia generally are among the very rare regional rural success stories in that small wineries are eco-friendly, they are sustainable, they employ a disproportionately high number of people, they are part of a growing component of wine tourism and they are contributing, and have the potential to contribute incredibly more, to export earnings.

Even though Australia's roughly 900 small wineries produce less than two per cent of Australia's wine, they are pivotal in the geographic locations—the demographic locations—where they work and where they operate. Any proposed ad valorem tax is going to continue to actively discriminate against the small wineries in favour of the large corporate operators who currently dominate the Australian wine market. As you are no doubt aware, three companies in Australia produce approximately 51 per cent and market 51 per cent of Australia's wine. You have about 19 companies producing 98 per cent. The small wineries are minute in volume but disproportionately significant in social and economic terms.

What we are saying is that over the last, roughly, 15 years, wine tax has gone from nothing to the current 41 per cent level, which in itself is discouraging. Under the proposed WET—wine equalisation tax—plus the GST, we will end up with a tax on a tax. Even if, hypothetically, it was to stay at 41 per cent total, because of the sequential application of the

two taxes, the bottom line ends up being higher. In that respect, I would like, if I may, Mr Chairman, to distribute, through the secretary—

CHAIR—Yes. The secretary will take it and distribute it.

Mr Duncan—Thank you, Mr Chairman.

CHAIR—Okay. It is so done.

Mr Duncan—Just to indicate the current and the proposed situation, we have taken as a simple example a four-litre cask of wine under the current system and the proposed system and, similarly, a 750-millilitre bottle of wine under the current system and the proposed system, and we highlight the differences in tax.

Being mindful of the time, I will not elaborate on material that is in our submission, particularly as addressed in the six key points in our executive summary, but we suggest, with respect, that the federal government has been hoodwinked very effectively by the Winemakers Federation of Australia, which does not speak for the small wineries.

Until recently, a lot of small wineries believed that the Winemakers Federation of Australia did represent, protect and promote their interests. They have recently come to realise that that is not the case, that the Winemakers Federation represents the big end of town and does not represent the small wineries.

This coalition, for example, was formed only about a month ago and already has more than twice as many members in Tasmania as the Winemakers Federation. Around Australia, the coalition currently has approaching 200 members and the memberships are still flowing in, so it is certainly representative of the small wineries around Australia. I would now like to hand over to Mr Geoff Bull from Freycinet Vineyard. Thank you for hearing me.

CHAIR—Thank you very much, Mr Duncan. I should say, just to reassure you, that the argument you have put has been put to us in South Australia, with particular force in my home state of Western Australia, in New South Wales and we heard elements of it from the Alcohol and Other Drugs Council of Australia yesterday in Melbourne as well. So it is not as if we are unfamiliar with the argument. I just say that so that you do not think we are glossing over you too quickly.

Mr Bull—Briefly, I have been in the industry here for 20 years. I was in at the start of our industry, and I have seen the taxation go from zero to what it is today. The squeeze on the small vineyard/winery for profit is extraordinary now. The taxation system has been designed to squeeze us out of existence. You can see that the wine federation's representation of 18 big wineries is disproportionate to the 900 small people in our industry.

The whole point of our push is for a volumetric tax against the ad valorem. We are the only ad valorem taxed wine industry in the world. If we are going to compete on a domestic market and on an international market with growth, we need to be in line with our competitors. I will leave it at that. I would prefer questions. It is no use telling you things that you have probably heard in the past and will continue to hear.

I will add that part of this push will force wineries, as winemakers, into grape growers. It is very important for this part of the industry—which I call the important part, because I refer to the big winemakers as refineries; they do make wine and they make reasonably good quality wine—because the small winemaker is in the forefront of development and styles. We are the ones in the tourist industry, we are the ones the wine writers write about and people discuss, and we are the ones who provide the wines when on a Friday or Saturday night you sit down

for a special meal with a special bottle of wine which you talk about and appreciate. Not only that, the employment in local areas is phenomenal, particularly in Tasmania where we have more hands-on style vineyards.

In my own nine-hectare vineyard-winery, my wife wrote out 55 group certificates last year. It gives you an idea, in a little rural area, of what is being absorbed. Some of these people can hardly read or write and yet we can employ them to do these jobs. We can soak it up.

Let me finish by reminding you of what happened to the wool industry through not listening to market demands; we are doing exactly the same thing with this rapid acceleration of investment in vineyards. We have exceeded what should be planted already and we will go down the same track with this taxation and poor advice from the Winemakers Federation of Australia to both governments, Labor and Liberal, past and present.

Mr Althaus—My wife and I searched the world for a place to set up our own vineyard and, in 1990, we came to Tasmania, because I am convinced that we can produce a world class wine here in Tasmania. We have already proved that. We had some international success with our product. We invested millions here to build up a vineyard and a state-of-the-art winery. Now we have to face the fact that taxation gets at us all the time; every year it gets higher and higher. Despite the remarks of Senator Abetz, we are really threatened by these tax hikes. When you look at case study one which has been handed out to you by the Winemakers Federation, that is the first time they looked into a winery which crushes less than 50 tonnes. You can see 500 wineries in Australia crush less than 50 tonnes. They are going to be taxed out of existence. It says clearly here in this case study that all winery profit and more will be eroded. The winery would have a negative return on investment.

This shows clearly what the hidden agenda is of the big companies in my opinion. When you see that my wine—the wines we produce—can all be bought cheaper in Europe than here in Australia, that is, in my opinion, ludicrous. I think that we have to go for a volume tax because then we would have equal stakes in the marketplace.

Mrs Patterson—We own Hartzview vineyard. We have established our vineyard with our cellar door sales. For three years we have been Tasmanian tourism award winners. I speak from the seat of being very much involved in tourism in this state. Tourism to Tasmania is worth millions of dollars as you probably are aware and also provides a lot of jobs in this particular area. The Tasmanian wine industry value adds to tourism in regional communities. Last year there were 476,600 visitors to Tasmania who purchased Tasmanian wine. That is 21.9 per cent of all visitors to this state purchased a Tasmanian wine. Fourteen point two per cent of all the visitors to Tasmania visited a winery. The Tasmanian government has invested money into the wine tourism trail up north in the Tamar region and is acknowledging that wine tourism is a significant contributor to Tasmania.

Unfortunately, the way the tax is means that we are severely discriminated against. The larger companies, you are probably aware, pay 50c for a 750 millilitre volume, whereas premium wines, Tasmanian wines, pay between \$4 and \$10 a bottle. This is outright discrimination against quality and against small business, and we are suffering. We are not making a profit. We are committing seven days a week, we employ people and we sell an enormous amount of wine to the public. We are also in the unique position where our cellar door sales sell other vineyards' wines.

Tasmania, due to its small boutique sized vineyards, has numerous vineyards that do not have the capital for a cellar door sales facility for customers to come and visit. I sell between 12 and 15 other vineyards' wines at my wine centre. So when the public come to us, they get to taste not just Hartzview wines; they get to taste a range of Tasmanian wines.

One of the things that has been proposed by the Winemakers Federation as a pay-off for their acceptance of the ad valorem tax is a 500,000 small business exemption. Yes, we need an exemption. We need an exemption to continue our business just to keep our doors open currently. We do not go on extravagant holidays. The money that comes in is reinvested into winery equipment and into paying for staff to be involved so that we can keep the doors open seven days a week.

However the proposal for the small business exemption is only on cellar door sales and mail order. This would be a problem for small business, especially in Tasmania. As I have just said, there are many vineyards that do not have a cellar door facility who are forced to wholesale all their wine. There are at least 89 vineyards in Tasmania currently, although that figure is probably out of date because they are popping up all over the place. People see that premium wine is the way to go and they are investing in it. There would be only about 40 cellar door sales, so more than half are forced to wholesale their wine. They need an exemption and they need it to be on all sales, not just on cellar door sales.

Another point I would like to highlight is that last week my husband was in Singapore with a consumer show for Tasmanian tourism and also promoting our ports to the Singapore market. Unfortunately, one of the realities is the import duty in Singapore, which is massive—\$30 a litre for alcohol and three per cent GST—plus air freight because it was a last minute thing put together by Singapore Airlines so we had to freight the wine by air. But with all these costs we were still able to retail ports in Singapore cheaper than some of the retail outlets in Tasmania. I am sorry, I think that is a sad indictment on our tax system for small business when we are trying to make a profit.

One of the things that we will certainly be considering if this tax is not improved is whether we close our cellar door outlet and export all the product for less work—certainly there would be less employment. We would probably make more money. Thank you.

Mr Wells—My name is Geoff Wells, Stirling Heights. I operate a very small vineyard at the small end of the market. To a degree, we also rely on fruit sales to survive. We balance that from year to year. Under the proposed taxation system, we simply will not be viable as a winery. We will have to resort solely to selling fruit, which overall will mean less income and probably more work, but we simply cannot survive under the proposed tax system.

It means that basically we are going to put ourselves in the hands of the larger wineries which we do not look forward to. They already have considerable influence over what happens in all industries. But the small end of the market simply cannot exist if the tax system is to be as it is promoted. The volume based tax at least gives some hope of reasonable profit levels.

Our margins are very low at the moment. Growing grapes is very expensive. Unless you have significant capital to start with, then you are continually struggling. That is where we are. We started off very small; we still are very small. We did not have large amounts of capital to put in so we are continually trying to do things piece by piece.

We currently operate under the small business exemption. Under the proposed tax changes, we are unsure how that is going to operate. That currently allows us to sell up to approximately \$45,000 worth of wine a year and stay out of the wholesale tax system, but that does not include any fruit sales. It seems that under the proposed tax system all sales of your enterprise

will be included under that exemption. So that \$50,000 exemption as proposed will include all sales—that will immediately halve our potential income. That is not a situation we are looking forward to.

I really urge you to consider the two systems of volume based and value based tax, a reasonable exemption for small operators like myself and for larger operators. We still produce quality wines. We are a quality wine producer. We are not a hobby farmer. We are not in this for a hobby. We are a serious producer of premium quality wines as has been proved by our success on the show circuit. Should we go out of the market, which is entirely likely, it is going to have a negative effect on the quality of wines throughout Tasmania and the same thing is going to happen right throughout Australia. Premium producers will be forced into the position of selling fruit only. That is surely not what we want to do. We want to try to encourage small producers, people with a few acres, to be in the market producing quality wines and increasing tourism. We cannot all afford to do cellar door sales and we must have an exemption that is broad based, not just on sales through cellar doors and mail orders.

It is fairly important that the exemption is that broad base. A narrow based exemption simply will advantage again the bigger players. The exemption as stated is \$500,000. I think \$500,000 worth of sales is a dream for most Tasmanian vineyards. I urge you to consider that. Thank you.

CHAIR—Can we call a halt there, Mr Duncan?

Mr Duncan—Yes, if you wish, Mr Chairman.

CHAIR—I have three major political parties and an independent and they may all wish to ask you questions. We have only 15 minutes.

Mr Duncan—We would rather take your questions.

CHAIR—Let us get to the end of the questions and, if we have got a bit of time, you may put the additional matters.

Senator GIBSON—The picture you are painting is basically that the industry here is struggling financially with the current tax regime. That is the essence of your message.

Mr Bull—Yes.

Senator GIBSON—How long has the current tax regime been in place?

Mr Bull—It started in 1984 and in 1996 it ended up at—

Mr Duncan—It has progressively increased from no tax since 1983. The tax was introduced in 1984 at 10 per cent and it has gone up in increments to the current 41 per cent which now of course includes what was the state excise component.

Senator GIBSON—But the current levels were basically set back in the 1993-94 budget.

Mr Duncan—That is correct.

Senator GIBSON—And they have been constant since then.

Mr Duncan—Yes.

Senator GIBSON—Given that your industry has had a very onerous tax regime on you since then, how come your view did not get through to government last year? It certainly did not get through to my committee which was commissioned to seek the views of the community last year as to this situation.

Mr Bull—We were misled. We thought that the Winemakers Federation of Australia would have represented us fairly and honestly. They have not and that is where it lies. We were a

little bit naive I think, but we understand exactly the situation now. I must say that with this type of ad valorem tax, each year as costs go up, so does the tax. So 10 years ago it was bearable. It is unbearable today and in another five or six years it will be horrific.

Mr Duncan—I also make the point that several years ago Mr Croser, the present chairman of the Winemakers Federation of Australia, was actively supporting and arguing for volumetric tax as a component. In fact his arguments and Professor Freebairn's arguments to the Productivity Commission resulted, as you are aware, in the 1995 recommendations that there be that volumetric top-up component, rather than ad valorem. So certain people in the industry have changed their positions. As Geoff Bull has just indicated, very recently the small wineries feel that they have been sold out by the group that they believed represented their interests, namely the Winemakers Federation of Australia.

Ms Bull—A lot of people in the industry feel very intimidated. They are frightened to speak out. They have arrangements with large companies and things like that and I think they have just copped it silently. As you would be aware, as profits decrease slowly through the years you cannot replace equipment and you cannot employ as many people as you used to. That is what is starting to happen now. Tasmania so desperately needs this industry. It can really deliver. I am sitting here today as the second generation, with the third generation. We employ so many people in our area. There is hardly any value-adding happening in Tasmanian industry in the agricultural sector and the wine industry, particularly, can deliver jobs. There is one company alone in Tasmania that has 200 jobs and that is from the wine industry, delivering long-term permanent jobs.

One of my little hobby horses is particularly people who have poor academic skills. The wine industry soaks up a lot of that labour. I have two particular workers whom I would love to have do a training course, but they are too frightened to do it because their reading and writing skills are so poor. They are working and learning good practical skills on our vineyard and will be employed for a long time.

Senator GIBSON—I know you understand that a lot of consumers in Australia buy cask wine and it is a cheap product. I guess it is because of availability of that cheap product that major manufacturers have basically pushed to keep the current tax regime that way?

Mr Bull—That is true, but I must inform the committee that 25 million litres of wine was imported from subsidised wine-producing countries to go into these cask wines.

Senator GIBSON—Reds?

Mr Bull—That is correct.

Senator GIBSON—And it is not readily identified?

Ms Bull—Exactly.

Mr Bull—Yes, people do not know where it has come from and under the packaging laws they can get away with it. They pay as little as 75 cents a litre for this wine. That is not jobs for Australia and really the quality of the wine is suspect.

Mr Duncan—We would ask the committee to note that the percentage of cask wines in sales is actually decreasing. More and more people are drinking quality wine. They are going for quality rather than quantity or volume.

Senator SHERRY—We heard from the Winemakers Federation in South Australia—we have touched on it to some extent. They proposed a number of solutions to your particular problem, obviously not the tax structural change that you desire. Central to their proposals

was the exemption of cellar door sales. I think Mrs Patterson has touched on that issue. Bottom line, do you see that as the solution to the problem you face?

Mr Duncan—It is part of the solution. I think the small wineries would say they need to retain cellar door sales exemption but that is only a part of the problem.

Mr Bull—That is correct. It is a real poverty trap. Firstly, the only people who will benefit will be the very large companies, once again. They would have cellar door sales to that level, but small industry people would never have anything like that. Secondly, and most importantly, the small industry people have still got to put their product into the domestic market. To have this ad valorem tax on that, once again, is going to make their product out of the question in the marketplace. You are trying to sell, say, a \$20 bottle of wine at \$26 because of the tax. But, in reality, it is only a \$20 bottle of wine. These costs will escalate as time goes on. It will go to the \$30 level.

Mrs Patterson—With regard to what Geoff is talking about, one of the problems is that the larger wine companies, because they have this subsidy on casks, can subsidise their bottled wine sales to places like restaurants and can undercut the smaller wine companies incredibly. For instance, in Tasmania we get tourists saying that Tasmanian wines are so much more expensive in the restaurants than mainland wines. That is because the restaurants bring in the mainland bottled wines that are already subsidised by the cask wine producers and undercut our prices. Because our costs are so much higher to start with, therefore our wholesale prices are higher. The tax hits them, the restaurants then put on their mark-ups, and that is the problem. That is where it is detrimental to our sales.

Mr Duncan—For example, a big wine company paying 50c a litre on its cask wine has an in-house cross-subsidy for its premium wines, which probably attract \$5 or \$10 a litre in tax.

Senator SHERRY—One area where I think you would agree with the Winemakers Federation is what they put to us in Adelaide: that with the new WET tax replacing wholesale sales tax, and then a GST in addition, the government was actually going to raise more revenue from the taxation on wine, it was not revenue neutral.

Mr Duncan—We agree with that. It would go from about \$520 million to approaching \$700 million, because it is a tax on a tax.

Senator SHERRY—In effect, the proposal for a WET tax and a GST is not revenue neutral, they are actually taking the opportunity to grab an extra and significant bite of revenue from the wine industry.

Mr Duncan—We have illustrated that in that handout sheet comparing the casks and the bottles, the current system as against the proposed GST system.

Senator SHERRY—Just reflecting on the wine industry in Tasmania, I think 25 or 30 years ago there were one or two wineries and today there are 89. It is one of the few industries in the agriculture sector—although dairy is another—that is a growing rural and regional employer. I think Senator Gibson was alluding to the fact that the industry has grown. We all accept that, and that is very important, particularly for Tasmania's disastrous situation. But the industry has grown despite the taxation.

Mr Duncan—It has grown in spite of the tax, certainly not because of it, and we are saying, 'Please don't kill the goose that is laying the golden egg'.

Mr Althaus—It takes about 10 years for the wine industry to break even from when you invest. We gave ourselves 10 years. We are now in the ninth year and we are starting to break even. But with this tax on top it will take us another two years, or probably more.

Mr Bull—There is a timelag between planting a vineyard and selling the wine which can be anywhere between three to five years. Therefore when people were planning, the tax was not so bad and the costs were not so bad, but everything has escalated.

And, as I said earlier on, the compounding problem is this accelerated depreciation of planting new vineyards. To my knowledge we have 100 hectares going in in Tasmania purely for that reason. The quality will be suspect since they have only done it for that reason.

Senator HARRADINE—The Alcohol and Other Drugs Council of Australia gave evidence to us yesterday afternoon in Melbourne and indicated that problem drinkers tended to go for the cask wine. Indeed, some quite alarming figures were given to us about the consumption of cask wine in the southern region of the Northern Territory as against the consumption of bottled wine. You would have an interest, of course, in the problem of alcoholism. Do you have any figures that you could provide us with in respect of Tasmania in this particular area?

Mr Duncan—We do not have specific Tasmanian figures in our submission, Senator, but we have tried to access those figures. The material we have provided to you and to your colleagues in the submission is drawn from national drug and alcohol figures, but no, we do not have specific Tasmanian figures. I gather there are figures available. We looked at some but we were not satisfied with the validity of the figures so we did not include them.

Senator HARRADINE—Would you agree that a principle of taxation is not necessarily just to grab as much money as one can, but to determine the tax in accordance with social priorities?

Mr Duncan—Yes, we agree with that. In fact, that is why we endorsed the arguments and the recommendations of the Productivity Commission in 1995 which, as you know, went into that aspect, the social costs, in great detail.

Senator MURRAY—I have just one question, Mr Chairman, in view of the time. Mr Duncan, your delegation is asking for fairly substantial changes to the legislation before us, as are other members of the beer, spirits and wine industry. The Prime Minister, the Treasurer, members and senators belonging to the National Party and the Liberal Party have all said that the government put this policy to the people and they have a mandate and a right to have it passed unamended. Are you saying to us that the government does not have a mandate?

Mr Duncan—We are saying the government was hoodwinked by listening only to the group the government may well have believed represented the wine industry, namely, the Winemakers Federation of Australia. But that group did not and does not represent the 900 small wineries around Australia. We are saying the government has been hoodwinked and the government, for social and economic reasons, needs to listen to the small winemakers and change its legislation. It must have a volume based tax if there is going to be a small wineries industry in Australia and if there is going to be socially responsible consumption of wine.

Senator HARRADINE—Would you think they have a mandate for everything except the alcohol industry?

Mr Duncan—That is a philosophical question. Perhaps if Geoff or Peter could answer.

Senator MURRAY—Let me put the question to you in context. The Senate is under a great deal of criticism as a house of review for doing this very job, and it is the responsibility of members of the community like yourselves to defend the Senate and to rebut that argument.

Mr Duncan—We are very supportive of the Senate as a house of review and we are very thankful that the Senate not only has its particular parliamentary role but also is doing its job as effectively as it appears to be doing at the moment.

Senator MURRAY—Thank you.

Mr Bull—I can answer that very clearly. The Treasurer of Australia stands up continually and says, ‘All wholesale tax is going, we will have a broad based tax of 10 per cent.’ Everyone in the wine industry believed we were going to have a 10 per cent tax on wine.

Mrs Patterson—And the Australian public did too. I speak with customers all the time. Just yesterday, once again, when we explained the current wine equalisation tax the customers were horrified. The Australian public believed that what the federal government said, GST only, also applied to the wine industry. They are horrified when they find out that we are once again going to be hit with a wholesale sales tax but with another name.

Mr Duncan—What we say is if there is going to be a sin tax component, a top up component, it must be volumetric. But if it is ad valorem it perpetuates the social damage which has been done by cask wine, as Senator Harradine referred to, and it will force the small wineries out of business. That will mean fewer jobs, less export income and a weaker domestic market which will be dominated by a handful of big corporate entities.

CHAIR—Senator Watson has been seeking the call. We are now out of time according to our program. I will give you one question, Senator Watson.

Senator WATSON—Thank you. I am trying to find some pathways to solve this particular problem. Would it be possible to have the exemption or threshold, plus the threshold extending to sales where other wineries supply those cellar door sales? Would that involve compliance costs? And as my colleague, Senator O’Chee, has mentioned, would it be possible to have a mixture of the two sorts of taxes to alleviate the problem?

Mr Bull—That would be only a short-term solution. If we are going to have a viable industry in Australia, of small wineries and big wineries, we need to go to our competitors in the world equal to their taxation system. We are the only ad valorem taxed wine industry in the world, and it has been put in place for one reason only.

Senator WATSON—What about the cellar door sales, extending to other—

Mrs Patterson—In the short term, it is absolutely essential, to maintain our current viability, that the small business exemption be introduced now. We are not asking for anything new; we are simply asking that it be readdressed. It is already there but it has never been upgraded. It is absolutely essential that we have that for cellar door sales and for all wholesale sales as well.

Senator WATSON—From a compliance point of view or for policing from a taxation point of view, would that be difficult or impossible?

Mrs Patterson—No.

Ms Bull—The structure is already established and we could verify them.

Mr Duncan—New Zealand, the United States and South Africa have similar structures and they use volumetric based wine taxes. So the short answer is yes, I think it is possible to go down the route you are proposing.

CHAIR—You did say, I think, Mr Duncan—or it might have been Mrs Patterson—that an exemption up to \$500,000 had been offered to you. Who by and when?

Mrs Patterson—No, I did not say it had been offered; I said that it had been proposed. The Winemakers Federation of Australia has proposed it. After all the publicity and the lobbying that we have done to say that they have not represented us, they have suddenly realised that they have left us out, and this is a pay-off.

CHAIR—Have they put that to the government, do you know?

Mr Althaus—Yes.

CHAIR—They have?

Mr Althaus—I think so, yes.

Ms Bull—That has always been, I think, in the negotiations—

CHAIR—Have you received a reply from the government, or have they?

Mr Duncan—Our coalition has not. We cannot speak for the Winemakers Federation.

CHAIR—Okay.

Senator GIBSON—I just want to follow up on that for some factual information. When we were in Perth a couple of weeks ago, the Independent Winemakers Association put a proposal before us, and this is the summary document of their proposal. Are you aware of that?

Mr Duncan—Yes. Is this the averaging on an ad valorem basis?

Mrs Patterson—No, it is volumetric—

Senator GIBSON—It is a shift to volume, then having a couple of classes of volume and then having—

Mr Duncan—Yes, the averaging on the volumetric. We support that.

CHAIR—Thank you very much. I am sorry it has been a bit rushed this morning but it is not as if we are unfamiliar with it, let me assure you. Thank you for aiding our inquiry in the manner that you have this morning.

Mr Duncan—Thank you, Mr Chairman and Senators.

[9.36 a.m.]

BARRON, Mr Vincent John, Chief Executive, Tasmanian Convention Bureau; and Past Chairman, Meetings, Incentives, Conventions and Exhibitions Industry Council

ROBERTS, Mr Michael William, Manager, Tourism Council Australia (Tasmania)

CHAIR—Welcome. The procedure is that we invite you to address us on your submission briefly and that you then be available for questions from the committee.

Mr Barron—I represent the Meetings, Incentives, Conventions and Exhibitions Industry Council, commonly referred to as the MICE Council of Australia. We appreciate the opportunity of appearing in support of the submission we have made. The MICE Council of Australia supports tax reform and endorses the principles of a GST. However, we believe every effort should be made to get the best and fairest tax regime.

The proposed goods and services tax has many advantages over the current system. One of the particular advantages is the treatment accorded to exports, which are being zero rated or effectively GST free, and that enables exports to become more competitive on the international markets. We see that as a plus. However, unfortunately this does not extend to tourism—tourism, in the current proposal, is not regarded as an export industry. The industry is united in its desire to see tourism exports treated on the same basis as other exports. The MICE Industry Council adds its support to the industry's request and in so doing we draw particular attention to the submissions made by independent tourism operators and the Tourism Council of Australia.

Our particular sector of the tourism industry—the meetings, incentives, conventions and exhibitions—is the high yield end of the industry; it is business tourism. However, that does not mean that it is not sensitive to price—quite the contrary. It is sensitive to price because it comes under scrutiny twice in the decision to choose Australia as a destination for the meetings or incentives.

We have outlined in our submission that our services are subject to considerable scrutiny, particularly when it comes to prices, and that is more so than any other sector of the tourism industry. So if price is such a key factor, the importance of our principal tourism asset—that is, Australia's natural environment and the fact that people like it; the appeal of the place—diminishes. We are more vulnerable to competition from nations who can provide that financial incentive, and they are doing it. When we bid for an international conference our submission is carefully compared to bids received from other countries. By not being accorded GST-free treatment, Australia's bids will be 10 per cent dearer than would otherwise be the case. And there is no doubt that this will lessen our advantage in the competitive market and that this will be made plain to decision makers by our competitors.

Price is also important in determining how many overseas delegates attend a conference in Australia. That is the individual decision of the delegates. We are a long way from major markets and, consequently, relatively high airfares work against us. If we add a further 10 per cent on to the cost of registration fees and accommodation, it will make our task just that much more difficult. While we concede that some of those attending may be able to treat this cost as a business expense, it will not be all; and certainly it does not apply to the very high component of accompanying persons who attend as well. We believe that the number attending international conferences, and our prospect of gaining them, will be diminished by the imposition of this, by the non-treatment as GST free.

Can I emphasise in closing that our request for GST-free treatment only relates to registration fees, accommodation and those aspects which are paid by the conference delegate prior to his or her departure from their overseas destination. This industry is different to the rest of tourism in that there is a clear paper trail, which can be easily audited, of delegates' registration and their attendance at conferences in Australia. We are not seeking exemption for those people for purchases made in Australia; it is for those made overseas.

The one factor here we do note is that the government has already conceded that domestic air travel prepurchased offshore by intending overseas residents will be accorded GST-free treatment. It is the same principle that we are seeking to have applied to other expenditure incurred by overseas delegates prior to their departure to Australia. We are simply seeking equity for the industry and we seek your committee's support of that position, Mr Chairman.

CHAIR—Thank you, Mr Barron.

Senator GIBSON—Vin, I assume you are appearing here this morning on behalf of the national council, not just the Tasmanian interest.

Mr Barron—Very much so, Senator. I am past chairman of the MICE Industry Council.

Senator GIBSON—What happens to VAT or GST treatment in the main countries you are competing with? Where are they and what happens there?

Mr Barron—Some have them and impose them. There are systems of rebates for purchases made within the country. However, conceding that, the fact of the matter is we are at a disadvantage now anyway for a number of geographical and logistical reasons. To impose a 10 per cent GST on top of that competitive position we say will affect the decisions in winning the conferences and in the decision of delegates to attend.

We are simply making ourselves more uncompetitive by imposition. The fact that there has been a regime of 30 years in some countries may be a point that you are making. The fact that we are imposing a differential at the moment in a competitive world is to our disadvantage, and we believe it should be treated like every other export.

Senator GIBSON—Is the world market for this sort of business growing?

Mr Barron—It has been the fastest growing sector of tourism. The other aspect of our competitive side is that there is significant government investment publicly funded in convention centres around the world, especially in our own region. In Japan, in Hong Kong and Singapore, there is significant capital in venues, and the same is being applied in Australia with Brisbane, Sydney and Melbourne. The WA government put \$100 million into a convention centre in recent days. We are putting in jeopardy the investment in those particular venues by making ourselves less competitive.

Senator GIBSON—You said the world market is growing. Are we in Australia getting our fair share of it, or is our share growing or shrinking? Put that into context please.

Mr Barron—It has been growing. I think last year there may have been a slight downturn in the actual number of delegates. It depends on a whole lot of factors. It has been over the last four years the fastest growing sector of the tourism industry.

Senator GIBSON—Of the Australian industry?

Mr Barron—Yes, of the Australian industry, correct.

Senator GIBSON—So we have been picking up market share in this segment of tourism?

Mr Barron—Australia is rated and Sydney is rated the number one meetings city in the world. That equates with what we know about Australia's position in world tourism and in

the world MICE sector. We are a very desirable destination. However, we have some competitive pricing problems. That is the best way to describe it, so we do have the desire.

Senator GIBSON—You mentioned Sydney but, as part of the ANTS package, one of the ten taxes coming off of course is the bed tax which applies in Sydney and in the Northern Territory. That would be an advantage for your industry, not here in Tasmania, I might add, but in Sydney?

Mr Barron—In Sydney of course it has got to be in that part of the proposal that is accepted—that all wholesale sales tax and a range of other taxes are removed.

Senator MURRAY—Mr Barron, as I understand it, you are not asking for special treatment; you are simply saying that as an export industry you want the same advantages given through the tax system as other export industries?

Mr Barron—Correct.

Senator MURRAY—That is the only question I have, Mr Chairman.

Senator SHERRY—You mentioned that Australia has a number of barriers—geographical, logistical. Does Tasmania face an additional set of problems compared to the rest of Australia in terms of attracting conventions?

Mr Barron—To put the Tasmanian industry in perspective, there are about 3,800 international visitors here for MICE activities each year. They contribute around an estimated—and fairly accurately estimated—\$9.3 million basically in foreign exchange earnings. If there was to be, as our paper contends, something between a 10 per cent or 20 per cent fall off, obviously we are talking of something between \$1 million or \$2 million which, in this economy and spread across the businesses within Tasmania, is significant. As to where Tasmania sits, I would think you could say that all of the more regional destinations, or destinations removed from the hub, will be more severely impacted—I do not have the figures on that—than would be those that are at the two hubs.

Senator SHERRY—Okay. This is my last question. Over the last five or six weeks we have heard from many organisations who say they support tax reform, they support a GST. But they argue one of two things: either they do not want it to apply to them or they want us to change the way it applies to them. And we have had literally hundreds of submissions in writing, and certainly the majority of verbal submissions, which have done this. I happen to agree with your argument, but do you not see it as somewhat hypocritical that we have organisations like your own coming in front of us saying, 'We support tax reform. We support a GST, but either do not apply it to us or change it in some significant way so that the impact is minimised'?

Mr Barron—I think probably I would not be more confident coming from any sector. We are simply seeking to have this sector and tourism in general treated in the same way as has been conceded by the purchase of domestic airfares purchased overseas. Already it has been conceded that if international visitors purchase domestic airfares they are GST free effectively. The same principle applies.

Further than that, inbound tourism is an export. Exports are being zero rated, so we are perfectly consistent. And this is where we seek an explanation—to recognise international tourism as an export for GST purposes. The Australian Bureau of Statistics does it. World Travel and Tourism Council does it. Export market development grants recognise MICE marketing in the application of those grants. So we are perfectly consistent in seeking to have inbound tourism—the MICE sector—treated as an export.

Senator HARRADINE—Mr Barron, with MICE, when you have people attending conferences and conventions in Melbourne and they have spare time after the conferences—possibly two weeks more in Australia—might they not want to consider Tasmania as an option after they get here?

Senator MACKAY—Exactly.

Senator HARRADINE—One of your problems and one of the problems in the package is that having purchased that head ticket within Australia, or indeed if they want to come over here on the *Spirit* or the *Cat*, there is GST on that.

Senator MACKAY—Exactly.

Senator HARRADINE—Are there many of those sorts of people that come to Australia on conventions and then maybe give themselves three weeks afterwards for them and their spouses to travel?

Mr Barron—Senator, this sector of the industry I mentioned has a good paper trail. It is simply because the marketing, the decision making, is a very small core of people who decide they are going to bring their conference to Australia. The marketing to get them to attend that conference is from a list of people who are identified, who are potential delegates to that conference. The third tier of the selling process is to sell them the longest stay possible in Australia. This is a very conscious part of marketing by the bureau and by inbound operators.

The incidence of change of plans or extensions may happen, but it is far less in this sector than in leisure tourism. And we are not arguing the case that you are putting. We think it is of much less impact to our sector of the industry because the decisions, the pre- and post-touring is sold beforehand on the registration form invariably.

Senator HARRADINE—So does Tasmanian Tourism, for example, not try to have an influence? I have been to some of these conventions and have been invited to them here in Australia to talk to delegates, et cetera, and I think I have seen there people from tourism companies, or indeed perhaps Tasmanian Tourism, talking to the people about Tasmania and the advantage of this state?

Mr Barron—It can certainly happen; and if they choose to extend, that may happen, but it is not in our submission and my council has not considered that aspect of it. It is a very high component that is booked for the reasons I have given overseas.

CHAIR—We have been around the table once. We have a few more minutes left for this witness, so I can take further questions. But I have been advised by the secretariat that the Tourism Council of Australia has been invited by you, Mr Barron, to join with you in your presentation and that their submission has been circulated to us. Is it the wish of the committee to hear the Tourism Council of Australia in this time slot? This being agreed, it is so ordered. And it is agreed that their submission be released in the normal way as well.

I have just one question. What would you think, Mr Barron, if the dollar price of Australian tourist costs for people who did not book outside of Australia increased by 3.5 per cent in addition to the 10 per cent GST? Would that be an added hurdle?

Mr Barron—If people from overseas had not booked and chose to travel to Australia and then decided to travel—

CHAIR—To take up Senator Harradine's point about them booking for, say, Sydney—the world's premier tourist convention centre destination, in your submission—and then choosing to come on, that would be something they had not prepared for and they would have to pay an extra 3.5 per cent on top of the 10 per cent. Would that be an added deterrent?

Mr Barron—You may say it is an added deterrent to go into some of the regional areas which I mentioned before. It is not a deterrent to their original decision to come to Australia—simply by implication it is not. So that I think stands and because there is so much pre- and post-touring sold beforehand, the incidence of that anyway, I believe, is limited—the incidence of people extending. It does happen but there is a lot of pre- and post-touring sold on registration forms.

CHAIR—On the amount of inbound tourists that we have, what percentage are sold before they arrive and what percentage come here under their own steam, so to speak?

Mr Barron—Again, only in the MICE sector. I cannot give you an exact percentage, but we have already said that conferences are different from inbound tourism. With rare exception, people register for conferences before they arrive at the registration desk. It does happen. People do arrive at the registration desk; but they are booking generally from overseas. The MICE sector is different.

CHAIR—If the impact of a GST was 13.5 per cent, not 10, on an industry that is not taxed now, that would be a significant disincentive, would it not?

Mr Barron—We are arguing that a 10 per cent imposition at the time of making the decision will have an impact.

CHAIR—Okay, so 13.5 per cent would have a bigger impact?

Mr Barron—It follows.

Senator MACKAY—Have you done any work in relation to the employment impact of this in relation to your particular sector of the tourism market?

Mr Barron—Some estimates have been made, and they were contained in our submission. The BTR has recently given provisional estimates of the productivity of Australia's meetings sector, and they are on page 2 of our submission. They have put that at \$1.43 billion in foreign exchange earnings, and that comes from about 230,000 identifiable delegates over 208 international meetings. What we cannot track is incentive visitors to Australia, because the immigration card does not identify that. So, again, there is an estimate of doubling that so that we are looking at potential foreign export earnings of \$2.8 billion. MICE is a significant employer, and the BTR estimate for the meetings industry alone is one per cent of total persons employed in Australia.

Senator MACKAY—Do you have any idea of the content?

Mr Barron—Of the one per cent of persons employed in Australia? No, I do not have that figure. That is the BTR estimate for the meetings industry employees in the country.

Senator O'CHEE—Mr Barron, what is the average duration of a conference which would attract people from overseas?

Mr Barron—The conference itself can vary from the minimum average of 3.4 days up to five point something days. However, the stay in Australia is generally in excess of 11 days.

Senator O'CHEE—But the conference itself generally runs from three to five days or from three to six days?

Mr Barron—From three to five days, on average.

Senator O'CHEE—Separating out the air fare component, what would the prepaid accommodation and the fees for a conference like that come to, assuming you rolled them together?

Mr Barron—Accommodation costs for a conference can vary widely—Sydney accommodation would cost \$300 to \$400 a night perhaps, or \$280 a night—and the registration fees for conferences vary significantly from medical and other conferences to conferences on social issues.

Senator O'CHEE—Of course, medical conferences and tours are tax write-offs, aren't they?

Mr Barron—Some expenditure, we concede, can be treated as a business expense; however, the accompanying person may not be.

Senator O'CHEE—That is why some of these conferences are so attractive internationally, isn't it?

Mr Barron—That is conceded.

Senator O'CHEE—When you look at the total cost for the duration of the conference of the air fare, the accommodation and the conference fee, what percentage of it is air fare and what percentage of it is everything else? You must have some average figure there.

Mr Barron—I can get an average figure, but I would not pluck one out of my head. The fees can vary so much. The fact of the matter is that, whether or not they are attractive, with the GST they are going to be 10 per cent less attractive.

Senator O'CHEE—The air fare does not attract the GST in that sense, so it is not 10 per cent of the total cost.

Mr Barron—We have referred only to accommodation, registration and other conference fees.

Senator O'CHEE—Sure, but do you accept the fact that, when somebody makes a decision to fly to Australia for a conference, they are not just looking at the conference fee; they are looking at the overall cost of the air fare and the conference?

Mr Barron—Yes.

Senator O'CHEE—So it is not correct to say that the cost of the package will go up by 10 per cent.

Mr Barron—We are not speaking about the package, Senator O'Chee. We are just looking at those components of the conference that we referred to—accommodation, the conference registration fee and other components of that conference. That is what we are referring to. The fact that they are going to be 10 per cent less attractive by having a 10 per cent cost imposed upon them is what we are arguing. We are arguing that, if we are going to attract that export income, we need to zero rate that expenditure.

Senator O'CHEE—But you also accepted the fact that many conferences—I will not say most—are business related. The Lions Convention, for example, would be an exception to that.

Mr Barron—There are a lot of exceptions.

Senator O'CHEE—But many of them are business related. If you accept the fact that the costs are tax deductible, what we are really talking about is a portion of the total cost on some of the conferences. So the biggest impact you are talking about is a portion of the cost that applies to partners who are travelling for whom it is not a tax deduction.

Mr Barron—The initial decision to choose Australia is on two bases—first, the appeal of the destination and how many people the organisers believe they will get to travel to that conference. We are already at a disadvantage in that aspect because of distance and so on.

Second, price is an extremely influential factor in an organisation making a decision to commit their members to attend a conference. We are saying that the appeal of Australia as No. 1 is diminished, so more of the decision to bring the conference to Australia rests on the price side, and the decision making bodies consider that. Nothing is going to change. If it is tax deductible tomorrow, it is tax deductible today. We are still in a very competitive market, and we are still losing out on price because of the distance Australia is from our major source markets.

Senator O'CHEE—Does everybody choose to bring a partner with them?

Mr Barron—No. It is quite high. I know the domestic figures. I do not know the international figures, but it is quite significant. It is in the order of 60 per cent to 70 per cent—very high.

Senator O'CHEE—When you go to Austria, you think of it as a ski resort location. I was surprised when I met with the Innsbruck tourism office, because they said they get more convention visitors than ski visitors in the course of a year and they come from all over the world. They never said to me that the imposition of a GST in Austria was an impediment at all to their industry, and they have international visitors coming from North America, Asia and everywhere. Why do you think they would not find the imposition of a GST—at a higher rate than here—a problem, and you find it a problem here, notwithstanding the fact that it will not apply to the whole cost of the package?

Mr Barron—Australia's position, as we said, is No. 1 in desire in a range of countries. However, the conversion rate to Australia is a problem. The desire may exist, but for a number of reasons—mainly distance—we are not converting. Therefore, price is very sensitive—and this has been proven in the submission—in Australia winning the decision to host conventions. As for the other factor, you are looking at much less distance in Austria or whatever other destination you are talking about. Just concentrating on Australia, that is the impediment we have to overcome.

Senator O'CHEE—They say they have people coming from Asia to Austria. What is the difference in going Asia to Europe, or Europe to Asia?

Mr Barron—I cannot answer that. It depends on what your conference is and whatever else. All we can relate, which we have done with facts and figures, is how much business we are losing at the moment because of the perception. A whole lot of perceptions come into it as well as to where you choose. But we are contending that, based on what we are losing at the moment, a 10 per cent impost that is not then zero rated will impact to an extent of 10 per cent to 20 per cent of the current visitation for MICE activities in Australia.

Senator O'CHEE—Before we worry about whether it is 10 per cent, maybe you could go back and have a look at that question you undertook to take on notice about the component of cost.

Mr Barron—It is extremely wide, let me say. It could vary from extremes, depending on the nature of the conference.

Senator O'CHEE—But if you could come up with an average, it would be of great assistance.

Mr Barron—That would be a dangerous thing, because you have also got different reasons why people choose to come here. We may have an industry that is somewhat aligned more to Australia. The other factor about MICE being aligned with exports is that meetings and conventions have an industry and trade base like no other activity in tourism; therefore

Australia may have a competitive advantage with a particular industry that comes here. I will look at whether we can give an average or not, or we will give a sample of a range of package costs.

Senator O'CHEE—Thank you.

Senator WATSON—Mr Roberts, looking at some of these figures, obviously not all the costs are included in this document—the impact of people who come by the *Spirit of Tasmania*. Obviously, those costs will go down because of the impact on diesel fuel. Similarly, the passenger equalisation on cars does not seem to have been taken into account.

Mr Roberts—What we have done within this paper is focus on the way that more than 80 per cent of people arrive in Tasmania, and that is by air. No, we have not taken into consideration travel by sea, although a large amount, obviously, of the impact of a GST is experienced within the destination and not actually getting there.

Senator WATSON—Some of these figures differ quite significantly from the ANTS proposal—pages 168 and 169. Have you had a look at those to compare them?

Mr Roberts—No, I have not. These figures came directly from the paper that Tourism Council Australia presented in Cairns.

Senator WATSON—They may not necessarily be Tasmanian figures. Are they Australia-wide?

Mr Roberts—They are national figures.

Senator WATSON—So they may not necessarily apply to Tasmania.

Mr Roberts—That is correct.

Senator WATSON—Looking at the document that Senator Gibson has here, we notice a minus 2.8 per cent for certain items—accommodation, cafes and restaurants. We are having trouble reconciling your figures.

Mr Roberts—As I said, I relied on the figures supplied nationally. I have no intention of arguing or deviating from what the Tourism Council Australia has said nationally. I have used those figures quite simply to outline to the committee that, if there is an overall negative effect on the price of domestic tourism packages into this state, it will make Tasmania a less competitive destination, especially against offshore travel, which is one of our major problems at this point in time.

Senator WATSON—But what I am saying is that you are using national figures and saying they apply to Tasmania. I am saying there are significant omissions from your table and also there are substantial variations between the proposals on pages 168 and 169 and your figures. I think we need some more reconciliation there.

Mr Roberts—I am not aware of those figures.

CHAIR—All I can say, Senator Watson, is that Senator Gibson frequently quotes from ANTS on what the road freight cost is and then cites the Australian Road Transport Forum. Their figures differ significantly from ANTS favourable to your argument. If these figures differ from ANTS unfavourable to your argument, you should cop it sweet on the swings and roundabouts.

Senator SHERRY—I have a couple of points to follow on from that. Just so you understand, if you look at the ANTS package, you have what is called a cost effect and a price effect. The difference is that, if you look at accommodation, cafes and restaurants, which is obviously part of the tourism industry by and large, there is a cost effect decline of 2.8 per

cent but the price effect—that is, what the consumer has to pay—is an increase of 6.7 per cent by the time you add the GST and, hopefully, take off the wholesale sales tax. I do not think you need to be quite as concerned about your figures as Senator Watson is saying. I think they are probably a lot closer to the mark.

Do you agree that Tasmania, like a significant number of other relatively isolated regions of Australia, faces an additional set of impediments, in terms of getting international visitors out of Sydney or the Gold Coast and into areas like Tasmania?

Mr Roberts—We do indeed. In fact, I am quite sure Vin would have the same statistics. Any inbound tourist coming into Australia faces an additional cost to come to Tasmania. If that is through purchasing a holiday package within the country, obviously they are going to be significantly worse off. It is a very major problem getting international tourists here for that reason.

Senator SHERRY—I understand you are not an economic expert but you are representing the Tourism Council. But would you agree that tourism is one of a relatively small number of industries in Tasmania where we have had employment growth in the last decade?

Mr Roberts—Correct. We have also had tourism growth against the national trend.

CHAIR—This is an industry that does not have a services tax on it at the present time?

Mr Roberts—Correct.

CHAIR—And a GST would impose a services tax on it in a price sensitive industry, which therefore creates more obstacles for you?

Mr Roberts—Yes.

CHAIR—The other question I have is my 3.5 per cent question, Mr Barron. That figure is drawn from the Treasury submission to this inquiry in which they attached an appendix showing what the exchange rate variation would be on the Australian dollar by virtue of a GST in Australia. The finding was that it would push up the exchange rate by 3.5 per cent. With the dollar trading at around US62c, obviously Australia is a premium destination for United States' travellers. Their dollar goes a lot further in this country than it does in their own. With the trade weighted index of exchange rates also up against the Australian dollar, most European currencies mean that, for Europeans, it is also cheaper to come to Australia. It is more expensive for Australians to travel to those destinations. If the Australian dollar appreciates, it is more expensive for those tourists to come here and less expensive for Australians to go there.

One of the things about the exchange rate appreciation is that it is keeping Australians home or syphoning them into Bali, or both. If it is cheaper for Australians to travel, there is less likelihood that they will stay at home. Have you looked at those elements—the exchange rate impact on your industry, because it is a price sensitive one, and the exchange rates obviously have a big influence?

Mr Roberts—We certainly have not examined that, Mr Chairman. As you say, the major competition for Tasmania from the domestic tourism market is packages sold to offshore destinations, Bali in particular. I think that you could look at any national newspaper just about any day of the week and discover that you can spend seven days in Bali at a lower rate than you can spend seven days in Tasmania. If the impact of the GST is to make that travel to Bali cheaper and to Tasmania more expensive, we are going to lose the market share that we already have.

Senator GIBSON—Mr Roberts, have you any statistics on international visitors coming to Australia? What proportion of them come to Tasmania? What proportion of the number of tourists coming to Tasmania annually are international tourists?

Mr Roberts—As a proportion of the national statistics, I cannot tell you. Certainly, about seven per cent of our total market is international tourists. By far our largest market, obviously, is the domestic tourist market.

Senator WATSON—How many of those internationals would be backpackers, low income people?

Mr Roberts—The backpacker market is really a fairly small slice of the Tasmanian tourism market. It is very small.

CHAIR—I think backpackers tend to stay longer and actually spend more money. Japanese tourists come in for a week and go out again.

Mr Roberts—That is right.

CHAIR—Thank you very much for your presence here this morning. We have appreciated the assistance you have given to the inquiry.

Proceedings suspended from 10.15 a.m. to 10.30 a.m.

DEEPROSE, Mr John, Sales and Marketing Manager, Inbound Tourism of Australia

CHAIR—Welcome. We invite you to address us for a few minutes on your submission, which we have in front of us, and then be available for questions from the committee.

Mr Deeprise—Thank you. I am appearing on behalf of Inbound Tourism of Australia. You already have their submission, and I believe they have made a presentation to this committee before. The purpose of my attendance here today is to put a Tasmanian and regional perspective on ITOA's submission, and try to give some local information and validity to their submission.

At the outset, I should say that tourism in Tasmania is turning the corner. We have been through quite an adventurous five years since 1993. Tourism growth, especially international tourism growth, is quite satisfying at the moment. We work from a low base and, generally, Tasmania's international visitor arrivals lag behind the mainland's. I note that last year, for the first time in very many years, international growth into mainland Australia stalled whilst, at the same time, Tasmania's was increasing. On the basis of that, international growth into Tasmania has been somewhat sporadic. It is a very sensitive market. It represents two per cent of all international visitor arrivals into Australia, so it is a relatively small number that has come off a very small base over the past five years.

One of the concerns that we have, as a Tasmanian component of the international business, is the extra cost impost of reaching Tasmania, and the attitude of the overseas wholesalers to dealing with small regional destinations. From a sales and marketing point of view, our experience has been that the wholesalers tend to favour the large volume destinations where, essentially, it is easy to do business with them and where they have some volume considerations in the operation. Down here, there are very few ground operators, as they are called, so the cost of doing business in Tasmania already faces an impost. Those costs are going to attract GST. They are going to be built into the land content of the overseas package program, and that causes us some concern.

The other part of it is the treatment of visitors to Tasmania who choose not to purchase a package. The information that I have is that approximately 40 per cent of all arrivals to Australia will come on prepurchased wholesale packages, which means that 60 per cent of the international arrivals into this country are actually choosing to purchase their products when they arrive, or through other direct purchase means. It is interesting to note that that portion of the business in 1997-98 was worth, for Tasmania, \$90 million of direct purchase business into Tasmania. Of course, for the purposes of this discussion, that will attract the 10 per cent GST, which is something that causes this industry great concern.

CHAIR—Thank you. I did not get a chance to ask your federal body this question. It is a logistical or organisational question for me, in terms of preparing the report that this committee makes to the Senate. Have you put your views to the federal government and, if so, what is their response? If they have not yet given a response to you, when do you expect one?

Mr Deeprise—I believe that through the federal body our views have been put to the federal government. I am not aware of the response at this moment.

CHAIR—You might flag to your federal body that we would appreciate it if they could let us know what the response is.

Mr Deeprise—Certainly.

Senator O'CHEE—ITOA's members include some very large inbound operators, don't they, from overseas?

Mr Deeprise—Yes.

Senator O'CHEE—Those inbound operators are foreign companies, aren't they?

Mr Deeprise—In some cases, yes.

Senator O'CHEE—When those inbound operators sell a package, they will not have to worry about GST on the air fare component, will they?

Mr Deeprise—That is correct.

Senator O'CHEE—If I walk down the street in the US, England, Europe or Japan and I see a travel agency, invariably what I see displayed is the price of the air fare, isn't it?

Mr Deeprise—Not necessarily, no.

Senator O'CHEE—So if I were to walk down the street in London and looked a travel agent's, I would not see signs saying, 'Australia, such-and-such return'?

Mr Deeprise—Are you asking me the question?

Senator O'CHEE—I am asking you the question.

Mr Deeprise—You may or you may not; it really depends what type of travel agent you are going to. If you were walking down the streets of London and you were going past a travel agent's that was a charter operator, they would not be advertising an air fare: they would be operating a total package of what is called the 'land and air' component together. That would generally be pretty price driven. Some operators specialise in air fares only; some do not do either. It depends on who you are going to and what you are looking for.

Senator O'CHEE—I spent many years living in England and most of the travel agents there advertise the price of the air fare. That is not going to go up by 10 per cent, is it?

Mr Deeprise—I believe not, no.

Senator O'CHEE—So we are only talking about a price impact on a portion of the cost, and we accept the fact that many people, certainly FITs, look at the cost of the air fare. That is the principal decision, is it not?

Mr Deeprise—Yes; for Australia it is one of the major decisions.

Senator O'CHEE—We have now ascertained that one of the major decisions for FITs for Australia is air fare and that that is not going to change. So we are now looking at a portion of the market only, the non-FITs, and for them the cost of the package will rise by less than 10 per cent. What percentage increase in the cost of a package will it be?

Mr Deeprise—I personally have not examined that. I believe that that is an economic question that ITOA have forwarded some information to this committee on. I do not have it here. I can take that question on notice and give you a response.

Senator O'CHEE—If you could, please.

Mr Deeprise—I would say to you that to focus on the air fare alone actually then leads to another interesting issue. The fact is that air fares to Australia, by the very nature of our further distance, are very high. So the decision that normally accompanies the choice of the air fare is the time that people have to stay here in Australia, which is one of the longest duration holidays that there are in the world. That is the component of the overall holiday cost that is going to attract GST: the actual living costs and the expense whilst down here in Australia.

Senator O'CHEE—It is interesting that you make the comment about total cost and duration. It is a fact, is it not, that for a long time air fares out of Japan and into Australia were regulated by the Japanese government? There was a price requirement that said, 'You cannot make an air fare to Australia any cheaper than this.' Is that the case?

Mr Deepprose—It was, yes.

Senator O'CHEE—There was an exception to that, which was that there was a concession in favour of air fares to Hawaii: is that not the case?

Mr Deepprose—I am not personally familiar with that particular concession.

Senator O'CHEE—You might want to take on notice whether in fact that was the case, because in Cairns it was certainly the case. Then you might want to consider, if that was the case, why is it that when air fares from Japan to Hawaii were substantially cheaper than air fares from Japan to Australia—which is roughly the same distance—we still had a growth in Japanese tourist numbers?

Mr Deepprose—Well, Senator O'Chee, I can assure you that we did not get the growth in Japanese tourist numbers to Tasmania, and perhaps that might have had to do with the nature of the distribution chain of Japanese products into Australia—which generally, as you know, included some form of Japanese ownership of the product at the destination, which certainly is not the case down here in this particular destination. I think that in many regional parts of Australia there is a similar situation.

Senator O'CHEE—The problem there, and I do not want to make too harsh a point of it, is that the distributional decisions were made by some of ITOA's members, weren't they?

Mr Deepprose—Some of ITOA's members, yes, but not in totality.

Senator MURRAY—Your industry is not asking for special treatment, is it? It is merely asking that, as an export industry, you be accorded the same benefits as other export industries?

Mr Deepprose—That is correct. One of the concerns expressed in the ITOA submission is that, generally speaking, there is confusion as to the role of international tourism as an export industry. We would like to be regarded as the same type of industry that physically exports products. The fact of the matter is our product is coming into the country.

Senator MURRAY—You would not be aware of this, but the government has not examined, industry by industry, the relative case for this tax package. It has accepted a principle that export industries should be advantaged by having their input taxes removed. Although one may be able to argue the relative case for an industry, as you are being forced to do here today, if there is a principle established by government, your belief is that that should be carried right through.

Mr Deepprose—Yes.

Senator SHERRY—Would you agree that Tasmania, like a lot of other relatively isolated regions in Australia, has an additional set of problems, barriers, impediments, in drawing international tourists to the state?

Mr Deepprose—Yes, we would. As I mentioned in my introduction, it is simply an issue of critical mass. It is one of practical distance, the extra air fare and the linkages that wholesalers have to deal with. I think it is interesting when dealing with wholesalers, as opposed to inbound operators, out in the international marketplace that they will generally tend

to do business with those areas, regions, destinations internationally that they have a likelihood of making some money from, and that it is generally easy to do business with.

What we have found, because we are only two per cent of the market, which is one of the many things that Tasmania faces on a number of issues, is that we tend to take on only two per cent of the thought pattern. We are always working hard to raise our profile and get to the point where we can negotiate some business. We need to get some growth.

Senator SHERRY—On the issue of growth, would you agree that tourism is one of relatively few industries in Tasmania where there has been employment growth over the last decade? It is one area where we have some sort of advantage in order to employ people?

Mr Deepprose—We have a great advantage. All the research that has come from the various research bodies at the university indicates that tourism is employing one in 10 Tasmanians at the moment. Our growth forecasts are confident, and part of those growth forecasts factored in a flat domestic growth of between two to three per cent and an international growth of 10 per cent. The tourism industry, as one of Tasmania's growing service based industries, is, in our opinion, poised to benefit greatly from international tourism.

Senator SHERRY—You have referred to those growth forecasts. Do you know if the growth forecasts factored in the impact of the goods and services tax?

Mr Deepprose—No, they did not. All the growth forecasts that were done by the Tourism Forecasting Council were done before the announcement of the GST.

Senator SHERRY—Broadly, at the moment, the hospitality industry is not significantly affected by the wholesale sales tax, and the GST replaces the wholesale sales tax and a range of state taxes. It probably would not surprise you to know that the Senate committee has had reports from two economic modellers. One of them is a Mr Murphy, who supports a goods and services tax, I would say. He models the impact on tourism to be a negative as a result of a goods and services tax. There is an advantage to some industries and a disadvantage to others because of the goods and services tax, and one of them is tourism. Speaking from a Tasmanian perspective, because you are based in Tasmania and represent Tasmanian interests, does the impact of that cause you some concern?

Mr Deepprose—If that were true, obviously, it has to cause us some concern.

Senator SHERRY—You mentioned that 67 per cent of international visitors make a decision when they come to Australia about where they are going to go within Australia, whether they travel beyond Sydney, Melbourne or wherever. Is there a significant problem in getting people to visit Tasmania? We live in the state, we love it and we know how great it is. But, realistically, how do we get an increase in the proportion of those international visitors to Tasmania?

Mr Deepprose—I think one of the problems that Tasmania and a lot of other regional destinations in Australia face is that air fares from Melbourne and Sydney are not common rated down to Tasmania or the other regional destinations. Now that is a commercial choice of the airlines to do that, and I do not question that, but the situation in reverse is that you can travel from any point in Australia to any point in Europe and get a free air fare to any regional destination in Europe. The situation is not the same over here. We, as an industry, have to accept that as a commercial reality at this stage and factor in that extra cost of the air fare.

Whilst that air fare component will not be a factor when purchased overseas, as a proportion of a wholesale package, for those people who arrive in Melbourne, Sydney and Brisbane and

then want to make a decision about where else in the country they want to travel to, they will have to pay GST on that domestic air fare component which, as we know, is one of the major travel costs down here. One of the problems that we have is that people's time is relatively short. They start weighing up the cost of the air fare and how much they should pay for two or three or four days in Tasmania and it then becomes an economic argument. They say, 'Well, it would be cheaper to hop in a car and travel up to the Gold Coast or travel around New South Wales.' They are there, and it is cheaper and easier.

Senator SHERRY—Just one final point. We know that a GST will increase the price of domestic tourism—we can argue about what the level of increase will be, but we do know it will increase the price of domestic tourism relative to going to Bali, for example. As I understand it, at the moment, for people living in Sydney or Melbourne, it is cheaper to go to Bali than to come to Tasmania. With the GST, it will be an even worse scenario. It will be even cheaper—subject to exchange rate fluctuations—to go to Bali than to come to Tasmania. That is the impact of a GST on domestic tourism. What do you think the impact of that will be in terms of attracting or at least holding our share of the domestic Australian market and drawing them to Tasmania?

Mr Deepro—I think that certainly is the case—that the air fare component of it is a significant issue for those travelling between Sydney, Melbourne—our major target markets, for all intents and purposes here in Tasmania—and Bali. The ground components are very similar but that extra cost places us at a disadvantage. Constantly, here in this destination, we are trying to squeeze ground costs—that is, car costs, accommodation costs and food costs—down to maintain parity. That is against the background of very cheap labour costs overseas. It is quite a disadvantage for us.

Senator SHERRY—You understand that the ground costs in Australia relative to overseas will go up because of the GST and its application to food in hotels and restaurants and the labour component of the service of alcohol. There will be a substantial increase in the price of hotels, motels and restaurants. There has to be.

Mr Deepro—Yes.

Senator SHERRY—Again, that would put us at a greater disadvantage to a range of overseas destinations such as Bali or wherever.

Mr Deepro—Yes, I do understand that. There are various economic models for that ranging from between five per cent and the full 10 per cent flow on by the time the input costs have been credited off.

Senator HARRADINE—What is the percentage of inbound tourists as against other tourists from interstate coming to Tasmania?

Mr Deepro—It is two per cent.

Senator HARRADINE—Inbound tourism is two per cent?

Mr Deepro—That is correct. I am sorry, it is two per cent of Australia's total. Is the question you are asking the proportion of total visitors to Tasmania?

Senator HARRADINE—Yes.

Mr Deepro—It is in the order of 15 per cent.

Senator HARRADINE—Of those, 60 per cent make the decisions after they arrive in Australia. Is that right?

Mr Deepro—Yes.

Senator HARRADINE—You estimate that that is worth \$90 million to tourism in Tasmania?

Mr Deepro—That is correct.

Senator HARRADINE—That is air, sea and also the accommodation land costs.

Mr Deepro—No. That is just the expenditure in Tasmania.

Senator HARRADINE—It does not include air fares or TT-Line or the Incat.

Mr Deepro—No. The source of that information is the Tasmanian visitor survey which is conducted by Tourism Tasmania. It is an exit based survey which tracks tourism expenditure by segment and by origin of visitors. They have conducted that now, in quite some detail, for five years.

Senator HARRADINE—Is the concern that the GST, because of the price sensitivity of the industry throughout Australia, will be a deciding factor in many of the cases as to whether they come to Tasmania, whether they pay the extra fares to come over here and whether they then spend time here? There has been no estimation of what amount that would shave off the \$90 million?

Mr Deepro—It is hard to say because I think there is general agreement that there will be a cost impact, but at the moment there is debate as to the level of that cost impact. The reality is that visitors at the moment are spending \$90 million down here just on Tasmanian goods and services—predominantly accommodation, food, beverage and transport.

Senator HARRADINE—We are only talking about the 15 per cent.

Mr Deepro—We are only talking about the 15 per cent of the generated \$90 million. They are going to make a market based customer decision based on any cost increase. At maximum, that could be 10 per cent and, at minimum, some amount less than that. They are likely to have to spend up to \$9 million more.

Senator HARRADINE—How price sensitive is this industry?

Mr Deepro—The industry is pretty broadly segmented. There are some parts of it that are extremely price sensitive. I specifically relate to business out of Asia, and out of the business out of Asia I talk about the charter base business through to some areas which obviously have less price sensitivity because they will attract a higher socioeconomic segment.

Generally speaking, there is great price sensitivity in anything that is packaged. We heard before there is great price sensitivity regarding backpackers. Backpacking is regarded as a growth industry for this country nationally. I think we will suffer with that as well.

Senator O'CHEE—What was the impact on Australian tourism numbers from Australia to New Zealand when New Zealand imposed GST?

Mr Deepro—Australia's outbound?

Senator O'CHEE—Yes.

Mr Deepro—I have the figures here. It will take me a minute or two to see what the outcome was. Off the top of my head, I am not totally familiar.

Senator O'CHEE—Was it negative or positive?

Mr Deepro—At this stage I do not know but I can give you the answer later.

Senator O'CHEE—If your argument is correct, when GST was imposed in New Zealand there would have been a drop in Australian tourism numbers outbound to New Zealand—if your argument is correct..

Mr Deeprise—Provided the GST was the only market situation that occurred at the time, you would be right. Of course, there are other changing market situations that obviously are going to impact on any one of those numbers.

Senator O'CHEE—That would equally apply to tourism to Australia. There would be a number of other market factors that would impact as well. Correct?

Mr Deeprise—Yes.

Senator O'CHEE—So in fact the GST may just disappear amongst all these other market factors.

Mr Deeprise—I suppose you could say that. That might be the best possible result. The worst possible result is all those market factors might go the other way and it might actually accelerate it out and become an even worse situation.

Senator O'CHEE—It is one of many market factors.

Mr Deeprise—One of many market factors, yes.

Senator O'CHEE—I might leave the question there, but maybe Mr Deeprise could give us an answer after the next witness as to what the impact of outbound tourists to New Zealand was.

CHAIR—I acknowledge that question, and your willingness to supply that answer.

Mr Deeprise—Yes.

CHAIR—I have a couple of questions myself. You said one in 10 Tasmanians are working in the tourism industry. By my arithmetic there are about 425,000 Tasmanians, so that is about 4,200 people who work in the tourist industry in Tasmania. Is that about right?

Mr Deeprise—It is one in 10 of the people in employment. The actual number is somewhat less than that. The figure has been sourced from the university centre for research and takes into account the economic value to the state and the flow-on factor to all the other ancillary support industries. One in 10 people in Tasmania can derive their source of income from visitors.

CHAIR—That is not one in 10 in the front line.

Mr Deeprise—Not in the front line, no.

CHAIR—That is the front line and the multiplier effect of that industry in the economy.

Mr Deeprise—That is correct.

CHAIR—We heard earlier today from the small wine makers of their importance to the regional economy and, in their submission, of their importance to tourism as a way of keeping tourists here and attracting tourists. From your experience of this industry in this state, do you agree with that submission or not?

Mr Deeprise—Yes, I do.

CHAIR—The net population of this island is going down by about 2,000 to 3,000 people a year on average. That would suggest the importance of the tourist industry becoming greater further into the future, not less important. It also means that this state with one of the most fragile economies in Australia will place a greater reliance on the tourist industry in order to generate economic activity. They are fairly obvious conclusions to me. Do you affirm those as a Tasmanian?

Mr Deeprise—I affirm them, and I repeat the previous statement that I made that logic would have it that, if the local population and the strength of the local economy are reducing,

for a business such as the tourism industry to be viable and to grow, it needs to source its business from elsewhere. We regard ourselves as an export industry and source the majority of our business, obviously, from the mainland of Australia. All predictions that we have had are that there will be relatively flat growth in the next 10 years, whereas the international business where we have unlimited potential has growth predictions of up to 10 per cent.

CHAIR—You say in your submission that the federal government has allocated \$369 million over four years to the Australian Tourism Commission. What is Tasmania's share of that? How much will be spent by the ATC on promoting Tasmania?

Mr Deepprose—I do not know the answer. It is a source of great discussion and debate. The role of the Australian Tourism Commission is as a destination marketer to Australia, first and foremost, and then to ensure that the regions are sufficiently marketed. I am not aware of the actual breakdown of that. I would say the vast majority of their marketing funds are based on a national program, and the amount spent on Tasmania specifically would relate to things like the visiting journalist program, support for groups coming through and some cooperative advertising. That is something that I think you might ask Tourism Tasmania. They have a partnership arrangement with the Australian Tourism Commission to specifically maximise that relationship.

CHAIR—My understanding of inbound tourism is that it attracts people on the basis of going to the reef, the rock and the Opera House—that is, essentially the icon sites for Australia overseas—and our advertising tends to reinforce those images. Hence, the most recent controversy that the ATC's advertising featuring a couple on a nudist beach soaking up the sun is hardly advertising that focuses on Tasmania, is it?

Mr Deepprose—I think in fairness to the Australian Tourism Commission in the marketing of Australia, the reef, the rock and the Opera House historically could be regarded as the prime focus of their marketing. A lot of work has been done in the last two to five years on regional tourism marketing, and budget allocations are being made specifically for that purpose. It is one of those situations, purely from a business point of view, when the vast majority of visitors will enter the country through Sydney or Melbourne, where the industry basically has to concentrate on it. We in Tasmania of course would like more emphasis on our unique products and services, but I would say that, generally speaking, great progress has been made in that regard in the last few years.

CHAIR—Okay; I accept all that. The image portrayed in a tourist bureau overseas where foreigners sign up to visit Australia is not of Tasmania. In the current advertising it is the couple on a nudist beach or someone in the Whitsundays or something like that, isn't it?

Mr Deepprose—Generally speaking, you could say that that is the case, but I would say that, depending on which market you are in, a lot of effort has been put into the positioning of our unique products. I will cite Germany, for example. From Germany we have doubled the national number of visitor arrivals into this state. That has been brought about by the specific positioning of our unique heritage and wilderness and food and livestock products. A number of wholesalers in the German market have picked that particular product up and have focused on it. In other markets they find that perhaps the more tropical destinations are more favourable and they focus on those. So it is horses for courses.

CHAIR—Thank you for that. The Treasury submission to this inquiry expressed in its appendix a view that, as a consequence of the introduction of a goods and services tax in Australia, the exchange rate of the Australian dollar would appreciate against the trade weighted index of about 3.5 per cent. That means that the cost for foreigners purchasing tickets

to Australia would be higher than it is now. Given the price sensitivity of your market and the special needs of promoting this region as a seller or break-out region for the whole of the Australian market, what impact would that have on your industry do you think?

Mr Deeprise—I would not know what extent that would have. That would require some economic modelling, but as an export industry it obviously decreases the price competitiveness by that factor of 3.5 per cent, if that is in fact the outcome of it. So, generally speaking, what tends to happen in these situations is that the overseas wholesaler will look on the provider of the service in the country to meet that cost shortfall and reduce prices by 3½ per cent, thus reducing profitability by 3½ per cent.

CHAIR—I am sure others may wish to draw to your attention that different economists have different views about what the appreciation of the exchange rate will be. They all seem to appreciate. This is the Treasury submission, so it comes with the authority of the national Treasury. Does your industry in Tasmania have the capacity to absorb cost increases of that sort?

Mr Deeprise—In my opinion, without having done any modelling on it, I do not believe it does. We have found that, where rapid cost increases have occurred, it has had an effect on the business which ultimately has an effect on employment.

CHAIR—My understanding of the profile of tourist operations in Tasmania is that they could mostly be largely described as small business—

Mr Deeprise—That is correct, yes.

CHAIR—where margins are the thinnest of all by comparison. And they are the ones that would most likely find it more difficult to absorb costs. I am expressing these views; please indicate if you disagree with them.

Mr Deeprise—I think that is correct, and on top of the fact that they are generally small business, there are several thousand tourist businesses in the state and most of them employ five or fewer people. On top of that, they face the double hurdle of this destination—through the lack of a strong and growing economy through population—being very seasonal. So most of the business generated into this state occurs in eight months of the year, so four months of the year become very marginal where fixed costs have to be amortised.

CHAIR—Do you know what the multiplier is for your industry? How many people are employed outside your industry for every job inside your industry?

Mr Deeprise—I do, but I would have to take that on notice and give it to you. The figure of one in 10 people is the end result of the full multiplier effect. I can table that after. I will take that on notice.

CHAIR—Thank you very much, Mr Deeprise. Your attendance here today is appreciated by us and the assistance you have given us in our inquiry is also appreciated.

[11.08 a.m.]

HOOD, Mr Andrew Vaughan, Vice President, Vineyards Association of Tasmania

CHAIR—Thank you for being available slightly ahead of time. The procedure is, of course, that we invite you to address the written submission that we have in front of us. Just summarise the main points and place any emphasis that you wish to place in doing so, but be available for questioning.

Mr Hood—I was present when the National Small Wineries Coalition made their presentation this morning. I take your point that you have already heard a lot of arguments from small winemakers. I will try and skim across those so as not to waste time and repeat those arguments.

In general, I would, first of all, like to point out that the Vineyards Association is in very strong agreement with a lot of the arguments that the National Small Wineries Coalition speakers put to you this morning. We are certainly concerned about the general level of tax, both existing and possibly proposed, on Australian premium wine producers.

I point out to the committee that, if it has not already been pointed out several times, that the overall industry in Australia is the second highest taxed wine industry in the world after New Zealand. If you look at the premium wine sector, the Australian premium wine industry is the highest taxed wine industry in the world.

As part of the papers that you were given this morning in the earlier submission, there is a case study which I would like to address a little more specifically than was done by the National Small Wineries Coalition. This case study is the case of a small winery; 45 tonnes. It is an actual situation, which was obtained by the Winemakers Federation. They have told me that they view that as a fairly general and typical situation.

This is a 45-tonne winery with approximately \$300,000 invested in vineyard and winery facilities. At the moment the bottom line with the current tax situation is that that winery is making a \$5,800 profit; less than two per cent on investment. I would like to point out that the government is making over three times that amount out of that particular winery. This is a point of some contention and you will be familiar with the concept of tax revenue neutrality as it applies to the wine industry.

CHAIR—Can I just interrupt you and ask you a question about that table? That \$5,800 is the net profit. Are the wages and operating expenses included in the cellar door sales, or do we regard the net profit as being the sole income of the winery in your example?

Mr Hood—I think it is the latter, but I cannot confirm that completely. These are figures that were supplied in this form to me. A point of contention—and I think a disturbing point in this whole argument—is that the proposed rate of this wine equalisation tax has not been set. The bureaucracy has refused to commit itself on this, and it is still well and truly up in the air.

At the moment, I gather from the Winemakers Federation as late as yesterday that the bureaucracy has suggested 29.2 per cent. You can see on this table the effect of that on a small winery. It will reduce that \$5,800 profit to a \$10,000 loss, and increase the net tax take by \$15,900. I think this is a reflection of the tax on a tax situation.

The Winemakers Federation estimate of a truly revenue neutral wine equalisation tax is 24.5 per cent, and that will still result in a net loss to this particular winery of \$6,300. That figure depends on a continuation of the state rebate of the 15 per cent and, if that is continued, then

that loss would not be as bad. But as far as I am aware, not all states have agreed to that, and possibly not even a majority of states have agreed to that yet.

The question of tax revenue neutrality raises another interesting point and our understanding—and I think the public statements about the tax package when it was released—were that the levying of the GST would enable the Commonwealth to return to the states all of that revenue in order to replace state taxes.

CHAIR—Some state taxes.

Mr Hood—This might be a point that you can clarify for me. It seems to us that the current arguments are based on maintaining tax neutrality of the 41 per cent current wholesale sales tax, but of that 41 per cent, 15 per cent relates directly to the states' franchise fees issued.

The Commonwealth, as far as we have understood, has said that it is going to return the GST revenue to the states in order to replace some state taxes. If that 15 per cent state tax is to be one of those taxes returned, we believe that the tax neutrality basis starting point should be the remaining 26 per cent and not the full 41 per cent. And that certainly should result in a revision of these tax neutral WET figures that are being proposed.

CHAIR—I cannot answer that question because the government has not confided its views to me, but other members of this committee might be able to tell you.

Mr Hood—I am sure the wine industry will be very keen on finding that out because I think it is a very real question that should be addressed. There is the question of administration of this new tax regime if it is introduced. We are currently coping with a multilevel tax situation which is difficult. If the new package continues to involve two taxes, it is going to compound that problem. There is no hardware or software currently available in the way of cash registers or computer packages that can conveniently cope with a wine equalisation tax at the wholesale level, followed by GST at the retail level.

They are the only specific points to make. There is a general point I would like to make and I would be surprised if the committee were not aware of it. This whole issue has caused tremendous division within the wine industry. It is an issue that we did not want to have to argue and did not want to have to defend, but the way in which different sectors have gone about doing the arguing and defending has caused divisions in the industry. I think that is a most regrettable situation.

CHAIR—We are aware of the divisions that have been paraded before us at great length.

Senator GIBSON—The Vineyards Association of Tasmania is part of the WFA, the Winemakers Federation of Australia?

Mr Hood—That formal link does not exist and that is probably one of the industry's failings in that we did not have a formal pyramidal structure from regions to states to the national body in place when this argument suddenly landed upon us.

Senator GIBSON—You certainly had a member from Tasmania on the executive of the WFA in Dr Pirie.

Mr Hood—Yes.

Senator GIBSON—I asked the other groups this morning. Can you explain how it arose that the small vineyards were not represented in the representations put by WFA to the government and to my coalition committee on tax?

Mr Hood—I guess it was that we, as small business people, are all pretty busy with our own affairs. I guess from the publicity surrounding the release of the tax package, we were

all looking forward to it—I have to say that. It was not until a good deal of water had passed under the bridge that we suddenly became aware of what was really at stake and what it was going to mean potentially to the industry.

Senator GIBSON—You would understand, looking nationally at the total industry, there is a lot of consumer interest in the prices of wine products basically staying where they are. Hence, there is a lot of consumer interest, particularly by the poor end of the income distribution, in keeping cask wine at a low price. You would have to agree?

Mr Hood—Yes, I agree and I can understand the politics of this whole issue. It is being driven by the argument that milk cannot increase in price, whereas wine can increase. What is not being said in this whole argument is that the wine industry, for several years, has been paying much higher levels of tax that several industries are only now being asked to pay.

Senator GIBSON—Is it not also true that the current high level of tax which is currently 41 per cent and back in the past was made up of 26 per cent federal tax and 15 per cent franchise fee—a state tax—was introduced over the period 1993 to 1995?

Mr Hood—Yes.

Senator O'CHEE—I am looking at the figures here. In this case study, in terms of total tax taken before rebates in the 24.5 per cent example, the increase in total tax is \$1,500, isn't it?

Mr Hood—The increase over what?

Senator O'CHEE—Over the 41 per cent wholesale sale tax.

Mr Hood—Yes.

Senator O'CHEE—If you accept 29.2 per cent, and that has not been confirmed, that is about \$5,000?

Mr Hood—Yes.

Senator O'CHEE—The real difference, therefore, in terms of net tax liability is the cellar door rebate?

Mr Hood—Yes, and that is a real issue because so far it is only one or two states that have agreed to continue that rebate and the Commonwealth has washed its hands of that issue. They have told the wine industry that it is a state-by-state issue, 'You go and talk to your state governments and we are not going to back you.'

Senator O'CHEE—It is a state issue. Have you spoken to the state government?

Mr Hood—Yes, we have.

Senator O'CHEE—What did they say?

Mr Hood—I think we have some unofficial agreement from our Premier.

Senator O'CHEE—In which case the impact may be quite minimal if you maintain the cellar door rebate?

Mr Hood—Yes, but the danger is that if even one state reneges on this agreement, then the other states may cave in.

Senator O'CHEE—Are you saying that you do not trust the state Premier?

Mr Hood—I am saying—I do not want to be put in this position, please. I am saying that it is not yet a national fait accompli that all states have agreed to this rebate.

Senator O'CHEE—Do you think the Tasmanian government will stay firm with it?

Mr Hood—I have not seen it in writing. I would prefer not to express a strong opinion.

Senator O'CHEE—The real problem may lie with the state government.

Senator MURRAY—The essence of your submission is that you believe that wine should be treated no differently from any other product or service and simply taxed at the standard GST rate?

Mr Hood—Yes, that is our argument.

Senator MURRAY—You are aware that excise not only has a revenue component but is used by this Commonwealth government and all governments internationally to influence the kind of alcohol consumption that goes on.

Mr Hood—Yes, I am aware of the concept of externalities.

Senator MURRAY—We have had submissions this morning from various alcohol and drug people, as well from the spirits council and a brewer, I think, who accept the imposition of an excise mechanism to deliver a social and health outcome because you cannot do it through the GST mechanism.

Mr Hood—Yes.

Senator MURRAY—Are you strongly opposed to a volumetric tax in principle or solely because it adds price to your product and you regard that as making it difficult to make your industry competitive?

Mr Hood—I think the wine industry's position generally, and it is my personal view as well, is that the different forms of alcohol should be treated differently in this regard. Our argument is that the wine industry has been responsible in its attitude to alcohol abuse. We have voluntarily agreed to alcohol labelling and standard drinks labelling. I believe that the wine industry's advertising has been responsible. I would concede that if there are demonstrable negative externalities associated specifically with wine, then the wine industry should bear a direct cost associated with those externalities.

At the same time, I also believe that there is a responsibility for whichever body is imposing those taxes to take account of externalities. That body should also look at the possible positive externalities associated with wine—and there is a good deal of evidence that wine is actually a positive health factor in moderate consumption, which is what the wine industry has always tried to achieve.

Senator MURRAY—I have noticed that there is a temptation by all industry groups when speaking to us to generalise and to say 'the wine industry'. You have already confirmed to us that it is a very divided industry on this entire issue. We have had very substantial representations from large numbers of wineries—as opposed to those people who control the industry—that the consumption of cask wine at a price approximate to that of soft drinks does produce detrimental consumption of alcohol, and that one of the ways to cure it—and it is only one of the ways; there is education, obviously, and other campaigns—is to introduce a volumetric tax. None of us here—and I hope you do not either—swallows the line that wine is automatically good for you. If you drink too much of it, you end up with the same problems as if you drink too much spirits or too much beer.

Mr Hood—Naturally.

Senator MURRAY—I just want you to be clear. Do you believe that low alcohol, medium alcohol and high alcohol products should be distinguished in tax terms, regardless of the product, to encourage better consumption of lower and medium alcohol products?

Mr Hood—There are a number of issues that you have raised. Firstly, we had an industry meeting here yesterday at which the executive officer of the Winemakers Federation addressed members of our industry. He presented figures which acknowledged that there were local alcohol abuse problems, particularly associated with cask wine—which is hardly surprising as it is obviously the cheapest form of alcohol, at least in wine. But, to balance that, the amount of cask wine involved in those problems is minuscule compared with the total cask wine market, and if you look nationally there is little or no evidence to indicate that cask wine is nationally abused.

Senator MURRAY—That is the wine federation's view?

Mr Hood—Yes, I concede that, but Mr Sutton did have figures. I cannot provide you with those figures and I certainly cannot speak to them specifically, because I had no involvement in obtaining those figures, nor do I know the source of them. But they are Winemakers Federation figures, and I am sure that the federation would be quite happy to make those figures available to you.

To come to your last point, yes, I do believe that there are cases for treating the different forms of alcohol separately, because they are drunk in different ways. Specifically, with wine, there is a good deal of evidence to suggest that most people drink it in moderation with meals.

Senator MURRAY—But the international evidence is that abusers of alcohol, regardless of the form of alcohol, consume it on the same basis. They binge drink, or drink to excess, regardless of whether it is spirits, beer or wine. What I am searching for with you is a principle. The principle put to us by the AMA and the social and welfare people is that you should establish incentives in the taxation of alcohol products—all alcohol products—which promote better forms of drinking and the consumption of low alcohol products; and, of course, they have specifically given us the example of the success of low alcohol beer.

I have always found it strange that the wine people say, 'Set us aside; we are higher quality, better class people. The people who drink wine are terrific.' But we have all seen wine drunks as we have seen spirit drunks and beer drunks, so I am concerned that you are not developing for me a principle I can put my finger on. All I hear you saying is, 'Yep, let's stop alcohol abuse—and, by the way, please make sure that the wine industry is priced favourably over everybody else.' I cannot see the principle in that.

Mr Hood—I think, with respect, that there are some fallacies. When you look at somebody who habitually abuses alcohol, they are not going to be interested in a low alcohol product at any price. They want the alcohol. It is a different problem; it is a social problem, a medical problem. While I accept that, to a certain extent, an industry I suppose has to pay for that externality, I would suggest that the origins of the problem do not lie with the production industry, and that goes for beer and spirits as well as for wine. But I speak from the wine industry perspective, and I think it is demonstrable that we have, as an industry, supported the concept of responsible use of alcohol.

Senator MURRAY—If that were true, why have we had evidence before us that the increase of lower priced beer, because of a low alcohol taxation regime, coupled with marketing and educational techniques and random breath testing, has reduced alcohol abuse of beer considerably and has reduced the number of deaths in this country from alcohol abuse? Why have we had evidence that the marketing of that beer through price incentives has lifted the consumption of low alcohol beer to 25 per cent of the market? Your assertion does not fit with that case study in Australia.

Mr Hood—I accept your argument, if in fact those studies demonstrate that that has reduced alcohol abuse. It might well be—again, with respect—that it has lowered the general consumption of alcohol within the community, and that would certainly be reflected in an increase in the use of low alcohol beer generally by responsible users, as well as irresponsible users.

Senator MURRAY—Yesterday, the head of the Australian Alcohol and Other Drugs Council said to us that there had been 53—I think it was—studies over 120 years on the relationship between price and alcohol abuse, alcohol consumption and alcohol substitution, of which only three, by memory, had recorded no, or a negative, conclusion concerning that. In other words, he was saying that clearly price is a major contributor, and one of the contributors, to better alcohol consumption. Simply put, we have to have that evidence, versus your evidence, that that does not apply to wine.

Mr Hood—I cannot comment on that. A relevant part of what you have just said might be substitution. I do not know what the response of an irresponsible alcohol user might be to a price increase. I suspect that it is not going to be that he does not drink. It might be that he changes his beverage in response to that. But I would like to come back to my position and the constituency that I represent, and that is the premium wine industry of Tasmania. I do not believe, regardless of what arguments you might be putting in relation to cask wine, that Tasmanian premium wine is the subject of significant alcohol abuse.

Senator MURRAY—I have consumed a bit of wine in my time. I have always considered Freycinet a premium wine producer. Do you agree?

Mr Hood—Yes.

Senator MURRAY—But they do not agree with your submission, so you cannot claim to represent the premium wine industry. You can claim to represent those who support your viewpoint—isn't that so?

Mr Hood—I did not want to get into this sort of argument. I said that I very much regretted the divisions that have been introduced into this whole issue. They are divisions that have torn an industry apart and I think that is highly regrettable. It is not of our making. It is not the making of the National Small Wineries Coalition.

Senator MURRAY—You see, Mr Hood, we come from a democratic system and the senators here actually value a diversity of interests and opinions. I do not regard it as a shame or a problem that you have a different view from your competitors. You may, in fact, have a correct view. I am merely questioning as to how representative your view is.

We have just had before us six people whom I would have classed as being boutique and premium representatives and whom I respect as much as I respect you. I merely want to point out in the evidence on the record that the premium wine industry of Tasmania is not of one view in these matters. That is all.

Mr Hood—I did preface my remarks with a statement that I agree wholeheartedly with a lot of the arguments and, in fact, virtually all of the arguments. I think the differences between the small winemakers forum and our position is a minor one—a very minor one—and it is to do with volumetric tax versus current tax. Our argument is that there should not be anything more than a GST, in which case arguments over a volumetric versus an ad valorem tax component become irrelevant. Our argument is GST only.

Senator SHERRY—You are not seriously advocating just a GST, a 10 per cent tax on wine, are you? The price of all alcoholic beverages would go down dramatically. Do you realistically think that is politically sustainable?

Mr Hood—I am not a politician. It is not my job to sort out the politics of it. We approached it from a philosophical position. In the absence of specific evidence that our sector of the industry contributes to negative externalities at the consumption end, we adopted a GST only position as the one we would like to see.

Senator SHERRY—Logically, you are right. This government's argument is that a GST replaces the WST.

Mr Hood—Yes.

Senator SHERRY—But that has not happened in your case, has it?

Mr Hood—Correct.

Senator SHERRY—You referred earlier to the problems you are having with Treasury and the bureaucracy. We are five months out from the last election, and I am sure you would not be familiar with all the details of this package, but this was the document the current government took to the election. There is a specific reference to this WET tax replacing the WST and then the GST. There is a page and a half of information. Surely it is the government's fault that you are still arguing about this issue and still trying to get clarification. It is not Treasury's fault. It is not the bureaucrats' fault. It is the political masters who have designed this package and it is very unclear—at least in part—how you are going to be treated at this stage five months after the election.

Mr Hood—I do not want to be drawn into party political debate. I concede your point but I would also like to make the point that it was a Labor government who introduced the last significant sales tax increases on wine.

Senator SHERRY—I will accept that and I will accept that criticism legitimately, having been part of that government. But we are dealing with today's problem.

Mr Hood—Yes.

Senator SHERRY—Here we are five months out from an election. These bills have already gone through the lower house. We have not yet got the specific legislation on the WET tax and the government still has not given you a response.

Mr Hood—Yes, you are correct and I do concede that.

Senator SHERRY—Isn't it true that at the same time it appears—and there is a unanimous view in the wine industry on this issue—that the government, in replacing WST with a WET tax, is actually going to grab more revenue than it needs? It is not revenue neutral.

Mr Hood—That is quite possible. It is very possible at the moment.

Senator SHERRY—In your KPMG study you say there will be an extra \$4.3 million in taxation in Tasmania. What will be the impact of that additional \$4.3 million in taxation on industry in terms of profitability and, ultimately, jobs?

Mr Hood—It is pretty obvious, isn't it? When you look at the possible impact on this 50-tonne winery, businesses are not going to keep going for long if they are making a net loss.

Senator SHERRY—It would be a negative?

Mr Hood—Dramatically negative.

Senator SHERRY—In terms of the number of wineries and employment?

Mr Hood—Yes—

Senator SHERRY—You raised an issue—

Mr Hood—and in the flow-on effects into our local tourism, restaurants, et cetera.

Senator SHERRY—It is an unfortunate feature of the Tasmanian economy that there are not too many industries that are expanding in terms of employment and general growth at the present time.

Mr Hood—I might point out one very possible scenario. If this does go ahead and wine producers find that they cannot bear the increased tax burden, one possible option for them may well be to pool all of their grapes into one batch, make a wine specifically for export, close their cellar door operations, export the wine, pay no tax at all, and go on holidays for the remainder of the year.

Senator SHERRY—That would be disastrous in terms of the packaging of Tasmania itself.

Mr Hood—There would not be a visible Tasmanian wine industry then.

Senator SHERRY—What is happening at the moment is that we are getting wine tours, cross-packaging of cheeses and other fine Tasmanian food and alcohol.

Mr Hood—It is all looking terrific at the moment but it may well come unstuck.

Senator SHERRY—You raised an issue that no-one else has touched on in all the submissions we have had, which I found quite interesting. You mentioned the administrative costs of the application of, effectively, two new taxes and the hardware and software issues. Have you had any financial advice about what cost might be involved?

Mr Hood—No, I have not.

CHAIR—I want to come back to the point about the mutually reinforcing nature of tourism and the wine industry in Tasmania. So far this has been a day of wine and tourism as far as this committee is concerned. For urban Australia the wine industry in its Tasmanian form is not an easy industry, as I understand it. This is a seven day a week industry with long hours and hard work. The image of the wine industry resting on a sundeck with a glass of wine under a bower of grapes and relaxing all day is not a true image, is it?

Mr Hood—I wish it were.

CHAIR—It is not, no. I want to deal with this because I think there is an image of the wine industry almost as a hobby, but the wine industry is actually hard work.

Mr Hood—There is an element of lifestyle, I would have to admit, but it is often over-estimated by people before they get into the industry and they realise that there is a lot of hard work.

CHAIR—A former colleague of mine is finding that out. Do you know how many people are employed outside of the wine industry for every job that is created inside the wine industry—the multiplier effect?

Mr Hood—Listening to your questions to the previous witness, I thought you might ask me this. I cannot give you a figure, but it would be very hard to establish because our flow-on is into tourism and restaurants.

CHAIR—I do not mean it in that sense. I mean just in your industry, how many people make barrels, et cetera?

Mr Hood—There certainly is a flow-on effect but I could not hazard a guess. If you did have figures on a national basis on that I think it would be fairly safe to assume that the flow on from a boutique premium sector within the industry is greater than the national average.

CHAIR—Then if you add the tourist dimension—

Mr Hood—Yes.

CHAIR—I do not have any further questions, Mr Hood. Thank you very much for coming forward today.

[11.45 a.m.]

GRAEME-EVANS, Mr Alexander Luttrell, Consultant, Retail Traders Association
STEVEN, Mr Antony, Executive Director, Retail Traders Association of Tasmania

CHAIR—Welcome, Mr Steven. We invite you to make some brief opening remarks to your written submission and then, if you would be kind enough, be available to take questions which the committee may have for you.

Mr Steven—I would like to be joined by Alex Graeme-Evans, a consultant, who also has a few paragraphs he would like to present which will address other small business issues also concerning the winery industry.

CHAIR—By all means bring him to the table. Please proceed.

Mr Steven—The current taxation system in Australia is obviously not working to the extent it should. It is an impediment to retailing in general and acts as a disincentive to employers, employees and customers alike. The Retail Traders Association of Tasmania enthusiastically accepts that there is a need for tax reform in Australia. We are, however, very aware of the costs involved with the introduction of the GST and we have actively lobbied the federal government to offset the impact of these costs on small businesses through the Council of Small Business Organisations of Australia, COSBOA, and the National Association of Retail Grocers of Australia, NARGA, and we would like to support the positions presented by these groups.

Costs to small business will be greater in proportion to turnover than they would be for large businesses. This would be another impediment for small business and the government must be aware of the effect this will have on the economy through employment and be prepared to do something about it. Costs will occur in areas such as equipment—for example, computers and cash registers—as well as software. Labour costs will increase, whether for the business owners themselves or in the form of staff or additional accounting fees at the end of the financial year. Extra stationery and computer costs will all have to be considered. If a GST is to be introduced as recommended by the government on 1 July 2000 it should occur with a system of compensation for retailers to offset these introductory stage set-up costs.

The executive board of the Retail Traders Association noted a further concern with current excise on imported goods often being more than the proposed 10 per cent rate of a GST. When this is removed this will lead to a further reduction in price of these imported goods and therefore be detrimental to Australian manufacturers and our small business retailers. We ask that some measure be introduced to ensure that cheap imports do not affect equivalent Australian products.

The attraction of a GST to the retail sector is its simplicity, namely the fact that business operators will be able to calculate 10 per cent of the total revenue figure and subtract 10 per cent of the total expense figure in order to calculate the amount to be sent to the taxation office or have reimbursed. Of course, all this simplicity will be lost if there are any exemptions. And if food were to be exempted then the multi rate calculations needed to be made by the store owners. Even just the two rates, nought and 10 per cent, would be an overbearing burden, and this will impact adversely on smaller retailers with extra staff and equipment costs. Food should not be exempt.

I have a question regarding visibility, and I hope I have an answer here. Will the consumer know at the point of sale the amount—not the rate but the amount—of tax they are paying? An answer: only if the GST is totally broad based will the need for a clearly visible GST

amount at the point of sale be avoided. The public will be able to assume that the price includes a GST, and this will prevent the tendency for advertising to occur without the tax being included in the price. Any narrowing of the tax base will result in unmanageable procedures being required. We feel the GST must be as broad based as possible so that consumers can safely assume that there is a 10 per cent tax on all that they are buying, and that would avoid the itemised tax statements having to be issued with every purchase. I know that when I visited New York a number of years ago, the procedure of buying a camera was quite a shock to me, being a visitor. It is \$50 for the camera and then they are asking for an extra \$12 afterwards. Being naive, I was not aware that it was going to cost me \$62. The price in the window said \$50.

Many of the sector's lobby groups have advocated the government's suggestions that retailers be allowed to retain funds collected for a period of up to three months in order to recoup any tax collection costs through interest. We feel interest rates now are just not high enough, and the RTA feels that this would be insufficient. It would also expose many retailers to the same temptation as with employee income tax, which is held ready for sending to the ATO currently. In reality, other accounts may be paid in the interim and, if the ensuing period does not live up to expectations, they are left short and in trouble. This is an important reason to insist that all registered GST collectors pay on a monthly basis and a separate payment for collection be made—an agent's fee, if you like—by the ATO to the retailer.

The major chains are all able to buy direct from manufacturers and therefore pay wholesale sales tax currently on the manufacturer's price, where smaller retailers pay on the wholesaler's price, giving the majors a financial boost in the order of \$120 million a year. GST, of course, will eliminate this, but the RTA asks this question: What happens to this advantage in the meantime? The interim windfall by major chains should be avoided and compensation should be given to those who pay the extra for buying from wholesalers instead of manufacturers.

In conclusion, the GST will increase the efficiency of the tax system in Australia, and this is sorely needed. We have also noted the experience in New Zealand that shows that the level of efficient bookkeeping in small business increased.

CHAIR—Have you complained to the government about their tax package, in view of your submission?

Mr Steven—I have not written to the government direct. I have been relying on this inquiry to send my messages.

CHAIR—This is an inquiry from the house of review. Obviously we only review what the government puts before us, we are not the primary mover here, and we do appreciate it if organisations that take their views to us have actually spoken to the government to begin with. If the government is then persuaded by you, it does not come to us and we do not have to review it.

Mr Steven—You have already been presented with legislation that you are reviewing. Is that right?

CHAIR—Yes.

Mr Steven—As far as the House of Representatives is concerned, it is a fait accompli; it is now up to you to make the changes. Therefore, I am asking you to take these into account.

CHAIR—Just so I can be clear about this, is one of the changes you are asking us to take into account to broaden the base of the existing tax and include health and education, two large sectors that are exempted under the bills that are before us?

Mr Steven—I do not think it is up to an executive director of the Retail Traders Association to make such grand decisions. I am just representing the interests of my members and I ask you to take them into account when presenting your review back to the government.

CHAIR—I see. So the emphasis you have placed on the base of this tax being as broad as possible I should amend to not include health and education, from your point of view?

Mr Steven—If you like, but what I am saying is that the issue I was addressing there, and I did mention it, was food generally.

CHAIR—That would be a further exemption to the two exemptions that are already provided. It is three, actually; financial services is a third.

Mr Steven—I am not asking for food to be exempt, I am asking for food to be included.

CHAIR—I know, but my point is simply this: you have lobbied us now on the record to have as broad as possible a base. The base of the taxes that we are reviewing is not the broadest possible base; it excludes two major industries. You accept the exclusion of those two major industries and you ask us not to exclude a third one.

Mr Steven—Okay.

CHAIR—I am just getting it clear, because people seem to overlook these issues. Am I right in thinking you are also asking us not to legislate to show, on the label in the store of the value of the good, the tax that a consumer would pay in the final price?

Mr Steven—No, the other way around, I believe. I am not quite sure that I understand you.

CHAIR—You are asking us to just show one price.

Mr Steven—I am after one price that would be inclusive of the tax, otherwise it becomes a managing nightmare for retailers to have to hold a \$10 price and then a separate \$2 tax to be paid when they get to the counter that is not accounted for in the price on the shelf.

CHAIR—But the proposal that is being put to us is that, so that consumers are aware of how much tax they are paying, you should show on the label, as well as the price of what a good is, both prices and a third and final price that they will have to pay. You are not asking us to do that?

Mr Steven—If it is kept as broad based as I have requested with regard to food, I would suggest that it would be better not to ask retailers to have to put into their statements on every receipt docket the fact that there is \$10 and another \$1. If it is broad based, surely the community can assume safely that it always includes the 10 per cent, therefore eliminating the need for us to be purchasing all the equipment, software et cetera, the incredible expenditure that would be involved in setting up.

CHAIR—But if consumers are buying, say, a washing machine, which has a wholesale sales tax on it now, which under the package before us would be eliminated and therefore there would be a cost reduction to the consumer—but the consumer may not know automatically how much that deduction should be—then there will be a further cost increase of 10 per cent, being, as some would contend, a net reduction. You are not asking that this information be available to consumers at the point of labelling?

Mr Steven—Point of labelling or point of receipt?

CHAIR—So that when people go and buy goods they can be sure that the full reduction that under this legislation is supposed to be passed on to them is passed on, and that the true price is known to them, plus the 10 per cent. It is a question of transparency.

Mr Steven—Surely if the price is \$11 and they assume there was 10 per cent on it, they can safely assume, if it is broad based, that \$10 is the price originally.

CHAIR—No, but you are missing the point. The point is that the GST, if it were to go ahead, would eliminate some wholesale sales tax—

Mr Steven—Yes. Say it was \$13 beforehand. If you are in the market in June 2000 and you see the price is \$13 and then you are in the market in July 2000 and you see the price is \$11, you realise what the difference is. But you want us to show that. Is that what you are implying, that we should have to show that there has been a price reduction in the original price?

Senator WATSON—What a compliance problem you are making. It is a simple tax.

CHAIR—This is a simple matter. We are making heavy weather of it. What I am asking is that the true price of the good be shown plus what the tax consumers would pay, so the consumers know where they stand in terms of what is the price of the good and what is the payment to government.

Mr Steven—I am sorry, I still cannot get the point that you are getting at. Am I missing something pretty basic here?

CHAIR—Yes you are, and you are being a bit thick, if I might say, because it is a simple point. It is one that has been canvassed widely before and I am surprised you cannot pick it up. The point is this—

Senator GIBSON—Mr Chairman, that is not fair.

CHAIR—It is fair. This is a widely canvassed point. It is a question of whether you show on the label the price and the tax. All I am asking you is: do you agree that it should be shown on the label or do you agree it should not be shown on the label?

Mr Steven—Our first preference is for it not to be shown on the label.

CHAIR—Thank you. Now in terms of consumers being able to work out whether or not savings are being passed on by the wholesale sales tax reductions being passed on to them in full and not held by, for example, your members because of other concerns to their bottom line of profitability: how do you think the retail industry should let consumers know that they are receiving the full rebate of the wholesale sales tax?

Mr Steven—I think market forces would provide the incentive to retailers to show what the price was and what the price is now.

CHAIR—I see, okay. You are a supporter of this tax.

Mr Steven—Yes.

CHAIR—You are a service industry and you do not pay tax now.

Mr Steven—No, we are retailers.

CHAIR—Yes, you fit into the category of a service industry. You do not create real wealth; you distribute the wealth that is created by others and you provide a service in that distribution to the community. You are a service industry in a classic definition. You do not pay tax on the services you provide now, but you are asking us to agree that you should pay tax to the tune of 10 per cent on the services you will provide in the future. It is a bit odd for organisations to ask us to be taxed. I am just wanting to be clear: is that what you are asking us to agree to from your point of view?

Mr Steven—A significant amount of our product that we sell now has already been taxed anyway.

CHAIR—No, but the services that you provide in selling it are not, and that is the particular role you play.

Mr Steven—There are so many other incentives on the other side that retailers recognise, such as reductions in many other taxes and the abolition of many other taxes, that we are willing to take those into account when taking a judgment on whether we accept GST. Overall, the package to us looks like it will work for us and we agree with it. It also simplifies the matter to a degree. But what we are requesting is that you insist that food has to be included.

You have taken me down many different tracks and tried to get me to look at different ways that we have not, as an organisation, looked at in our submission to you, and I can only represent the issues that have been discussed at my organisation at board level. Now, if you are asking some personal or private opinions on my part, I might be able to help you. But you are taking me to areas where the board has not given me any guidance.

CHAIR—With respect, I am not. You have put to me that you support this tax.

Mr Steven—Yes.

CHAIR—I am asking you for reaffirmation of the point that, as a service industry which is not taxed on its services now, you support the imposition of a 10 per cent tax. I think your answer to that is ‘yes’; I am just wanting affirmation.

Mr Steven—All right, yes.

CHAIR—Because it is quite unusual for industry organisations that are not taxed to say, ‘Excuse me, we would like to be taxed.’

Mr Steven—We are not alone. We are supporting the position, as I have said in my statement, of COSBOA and NARGA. We understand that there is a great need for tax reform in Australia and we accept, although you have put it in what I see as a negative light, what you are saying. It can also be put into a positive light for the sake of Australia and the people earning money in Australia.

CHAIR—What is tax reform is a subjective judgment. It is a matter of opinion, not a matter of fact, and whether these bills constitute tax reform is another matter again.

Mr Steven—I know your position on it, Mr Chairman. Our position is that we do support this tax reform, provided that some of these minor changes are made to protect the interests of my members.

CHAIR—All I am saying is that you may call it tax reform, but it is not a matter of fact that it is tax reform. It is a matter of opinion.

Senator WATSON—These are debating points for the chamber, Mr Chairman.

CHAIR—They may be debating points for the chamber but people run around talking about tax reform as if it were true. It is not true. Let us get the language right.

Senator WATSON—Mr Steven is here representing a particular industry and we are here to hear those views.

Senator GIBSON—You mentioned compliance costs and the importance of keeping the system simple. The example that you used was keeping food in, so that small businesses, when it comes to the quarter or the month, depending on how big they are—small ones, particularly, will only be on a three-monthly basis—can go to their bank statements and add up the total amount of sales or revenue for the three months, and one-eleventh of that, 10 for the products

and one for GST, and then go back to the bank statements and get their purchases for the three months, and again do the same. The difference then goes off to the tax office. It is basically a very simple system. Do you know, within the retail trade, within your members, what proportion of the retailers would be running computerised systems now?

Mr Steven—I do not have any research on that fact. I am willing to go to my members to find out and I will let you know. With anecdotal evidence through general conversations and knowing my members et cetera, I would say about 40 per cent would have a PC in their store at the moment and less than 10 per cent would have modem Internet connections. We have asked about that anecdotally before.

Senator GIBSON—Would a high proportion of them have point of sale registers?

Mr Steven—Yes.

Senator GIBSON—We had evidence from ACCI on Wednesday in Melbourne and they brought over a person from New Zealand to give us first-hand information on the cost of compliance and the application of GST in small business in New Zealand. One of the points they were making was that the cost in New Zealand of upgrading current systems, of those who are computerised, to a GST compliant one—after 12 years experience in New Zealand—today is only about \$150 for that add-on. Of those small businesses, of your members who look after their own accounts either by cash book or computer, is it not true that those who are computerised can either today or tomorrow go out and buy the appropriate accounting package—such as MYOB, which is commonly used—for \$400 or \$450 and one would expect that those systems would be upgraded to be GST compliant following the passage of this legislation in time for 1 July next year?

Mr Steven—A number of our members have older hardware that has to be upgraded to cater for any of the new software programs that come through. You cannot just generally think that it is only a software problem. Retailers, especially the size that I represent, generally do not have the wherewithal to update their computers every two or three years to keep up with technology. Often they are using old, decrepit hardware. When people talk about updating their \$150 or \$400 software, they have to take into account that often it will not be compatible with their old hardware. I feel it will increase the costs more dramatically for smaller retailers than it will for the larger ones who have a consistent program of updating their equipment.

Senator GIBSON—No doubt you are aware that Mr Reith, the minister for small business, has a committee advising him about what to do with the \$500 million that the government has set aside to try to help small and medium business make the adjustment process.

Mr Steven—Yes, that will be vital for us. That is more or less what I am saying—that we are going to need help.

Senator GIBSON—The other comment we got from the New Zealanders on Wednesday was that the time and effort that is required to comply with a GST in a broad system was minimal—that once in a quarter it takes 20 minutes, half an hour or an hour—those sorts of numbers—to do the calculations, which I described before. Do your members understand that?

Mr Steven—Yes, they do. I have looked at your sample GST return form. I was under the impression that, with this new tax system, a number of taxes will be put onto the one form to make it simple.

Senator GIBSON—That is right.

Mr Steven—Even now we, as employers, are responsible for sending off income tax to the Australian Taxation Office. We feel that processing five of the taxes, including GST and

income tax, is a significant burden and an agent's fee of some description, paid to the tax collectors, should not be ruled out. It should be considered.

Senator GIBSON—But isn't it also true that, for most retailers, a GST system, with returns on a three-monthly basis, is in fact cash positive for them because they will be holding on to the cash?

Mr Steven—I have not seen any data that proves that. It is very dependent upon how much they get to hold on to and how much interest they would get on it. In these low inflationary, or low interest, times we suggest that it would be insufficient to cover the costs.

Senator O'CHEE—When somebody walks into a retail shop in Australia now and buys goods, is the sales tax component of that product shown on the ticket?

Mr Steven—No, not at all.

Senator O'CHEE—Is there any way, unless they pulled out the sales tax schedule, that they would know what the sales tax they were paying was?

Mr Steven—That is right; they wouldn't.

Senator O'CHEE—The chairman put to you a proposition that the prices should be shown before GST, with GST, and the GST component, to aid in the transition process. Given that sales tax is almost impossible to calculate, do you think that the chairman's suggestion is a valid one?

Mr Steven—Thank you, Senator. You are highlighting to me the problem that the retailers would be faced with—that is, the setting up, calculating and putting into place of a system to be able to cater for all that information to be passed on to the consumer, when it is not even required under the current system.

Senator O'CHEE—Would you recommend that retailers adopt the chairman's suggestion?

Mr Steven—No. It would be a terrible burden to the retailers of Australia to have to comply with that kind of procedure. Here I am asking for compensation, for running as a tax collector for the ATO, and it is being suggested at this table that you would have to be not only the collector but also the displayer of tax collection, at even further cost. If that were to be implemented, would we be compensated for that?

Senator O'CHEE—We have had evidence from, for example, Mr Ray Regan, who said that, if the GST system was introduced as proposed—and that is before any possible exemption of food, which you do not support—it would take a business 228 hours a year to do their GST returns. On the basis of a quarterly return, that would suggest it would take each business something in the vicinity of 55 hours to do a quarterly return. Do you support that point of view?

Mr Steven—I have not seen how he has based his calculations for that, so it is impossible for me to do so, although it does sound a little excessive.

Senator O'CHEE—You have seen the proposed form?

Mr Steven—I have not seen an actual proposed form. I have seen a brochure, supplied by Senator Gibson, which outlines how it might be set out in principle.

Senator O'CHEE—Can you imagine it taking anybody 55 hours a quarter to fill in one of those forms?

Mr Steven—No.

Senator O'CHEE—Can I ask you about the issue of the sales tax advantage that the major chains get. That is because they buy direct from the manufacturer—

Mr Steven—Yes.

Senator O'CHEE—so they get it delivered to their own warehouses and distribution centres, or sometimes direct into stores?

Mr Steven—Either way they are paying less originally, and the sales tax is applied at that level.

Senator O'CHEE—At an earlier level?

Mr Steven—If the price is higher when you buy it, you are paying, in effect, more tax.

Senator O'CHEE—So they are paying less tax because it is applied at any earlier stage in the chain?

Mr Steven—That is right, and at a lower price.

Senator O'CHEE—And at a lower price, and part of the reason why there is a lower price—I am sorry, go ahead, Mr Graeme-Evans.

Mr Graeme-Evans—Some calculations have been done on that in the NARGA campaign—which is presently proceeding, as you know, in another place: we have the joint select committee about to convene and consider evidence—and it gives a major tax break advantage to the major chains. The figure that has been quoted is of the order of \$120 million. It is therefore rocking the competitive playing field on which small business can perform in relation to big business.

Senator O'CHEE—So there is \$120 million that the majors get that the small ones do not get? Or was the calculation on the basis of—

Mr Graeme-Evans—It is a saving on their part of \$120 million.

Senator O'CHEE—Their saving, rather than the additional burden for the small ones?

Mr Steven—It can be applied either way, can't it?

Mr Graeme-Evans—It is where the tax is applied in the system of production and supply. The major chains, having cranked down the manufacturers very tightly anyway with their unit prices so that they are dependent on them, having cranked them right down to bare minimums, then buy at the manufacturers' gates. From there, by vertical integration—it is their trucks, their employees—it goes straight into their supermarkets, whereas the smaller players, the lifeblood of Australia actually, the small business sector, have to buy it from what we call cash and carries and places like that. So, in terms of the cost from the manufacturer, they might not be able to get it at the same price because of the critical volume of purchase. But, even if they do, there are the add-on costs of the transportation and the holding in another smaller warehouse where they come in to purchase. And it is at that point, when it is transferring from them to a retailer, that the tax is on it, so it is at a higher level. Indeed, with respect—and I am sure you are sympathetic to this—if you were to read some of our documentation in relation to the NARGA campaigns, we have all of that very heavily documented in terms of that disparity in the problems of the playing field.

Senator O'CHEE—I am just keen to get some of your—

CHAIR—Can you wind up your questions, Senator?

Senator O'CHEE—Yes. I am keen to get some of your comments on the record now, so can I ask you two last questions.

CHAIR—Can you conclude your questioning?

Senator O'CHEE—That is what I am trying to do, Mr Chairman, by asking them in the one—

CHAIR—But I did not ask you to ask two last questions.

Senator O'CHEE—I am asking them in the one go, Mr Chairman.

CHAIR—I beg your pardon, Senator O'Chee. Would you conclude your questioning?

Senator O'CHEE—I am trying to do it, Mr Chairman. Can I ask you a two-pronged single question, Mr Evans. Do I assume that what you are saying is that the existing wholesale sales tax system imposes sales tax on part of the freight cost to smaller retailers? And the second prong of my single question is: do you have any idea of the burden per small retailer, on average, which is being borne by them which is not borne by the majors?

Mr Graeme-Evans—The answer to the first subquestion is, yes, it is added on. As to the formula of the add-on cost, there are so many factors involved that, with respect, in the short time we have available, you cannot put a finite figure on it—it depends on the nature of the activity, the role of the activity, the throughput. So I cannot give you a finite answer for the second question, regrettably. But, with respect, this will all be before the joint parliamentary select committee in relation to the dominance of the retail chains.

Senator O'CHEE—Thank you.

Senator MURRAY—In your submission you list the RTA's membership in Tasmania as being 419. Is that 419 individual stores, or is that members with more than one store?

Mr Steven—No, it is businesses. If they have more than one store, there would normally be the one member.

Senator MURRAY—Is yours solely a small business association or do you have the major retailers as members?

Mr Steven—Back in 1990, due to the shop trading hours issue, the industry sector split and most of the major chains went off and formed an organisation called the Tasmanian Chamber of Retailers. Therefore, the Retail Traders Association in Tasmania represents the small and independent retailers.

Senator MURRAY—How many retailers, roughly, are there in Tasmania?

Mr Steven—About 4,300.

Senator MURRAY—So your membership is about 10 per cent by numbers, but of course some of the majors have many more than—

Mr Steven—That is right.

Senator MURRAY—Are pharmacists members of your association?

Mr Steven—A number of them are, yes.

Senator MURRAY—Have they made any submissions to you and do you have any views as to their situation, where they are having to deal with GST-inclusive and GST-free goods?

Mr Steven—It is an example that we have noted. We understand that there are the exemptions under the current plan, which the chairman referred to, for health. We left the bulk of that argument to the pharmacy associations to pursue. Our position was to try to stop any further exemptions affecting the rest of our members.

Senator MURRAY—You have indicated the kinds of problems which arise when some goods are GST free and some are not, and your preference for that not to happen. In principle you would accept that the same arguments would apply to the pharmacists, wouldn't you?

Mr Steven—In principle you are absolutely right. But I understand that there are other considerations with regard to items of health.

Senator MURRAY—I want to briefly return to the invoices issue. Internationally, those countries which run sales taxes or consumption taxes at the point of sale have three different methods by which they deal with this matter. The first is the method by which you just get a final price and that is inclusive of the tax. That is pretty well the system we have in Australia at present with the wholesale sales tax: you just show the final price.

The second method is the New York method you outlined, where the retailer just shows a net price and adds the tax at the till point, and the consumer may not know that that is the case. The third method is where the final price is shown, both in advertising and on labels et cetera, but at the till point it is separated out for the consumer. That is the system which is presently run in New Zealand. The point—

Mr Steven—And proposed here?

Senator MURRAY—No. The point the chairman was validly making—and it is a pity it developed into a somewhat aggressive encounter—is that we have to consider which of those three types we should be recommending for Australia. In terms of the computer facility, it is very easy for the computer to work out that the good was \$110, less 10 per cent and you get to \$100 as the price of the good. It is not a difficult software application. The difficulties arise if you are showing it by label, by product et cetera. So your recommendation to us is that you would prefer simply a final price which does not split out the two? Is that right?

Mr Steven—That is correct.

Senator MURRAY—My last question to you relates to a most interesting presentation—and I would recommend you refer to it—that we had from Arthur Andersen, who are international experts in this field. One of the things they said—and I am paraphrasing because my document is in my luggage—was that this GST proposal was going to create 1.6 million taxpayers, very few of whom will get a benefit from the GST and very few of whom will in fact be net revenue deliverers to the government. That is not true for the retail industry because you are at the final point of consumption.

The point Arthur Andersen were making is that, for the business community as a whole—the 1.6 million taxpayers who will be producing an average of 38,000 returns a day—it is not really an attractive system. It does give you added cost, added compliance, new systems. That was behind the chairman's question to you and, again, I am sorry that it moved into an aggressive situation.

The question is: are business people like you saying, 'Look, this system is for the good of Australia and therefore we can accept additional compliance costs and additional management burdens because of it,' and that is why you support it, or, in your particular industry, it actually assists your sales? For people who are in export, it is very clearly an assistant mechanism. But in relation to the retail trade—and you would not be aware of these figures—Mr Chris Murphy, who is a strong supporter of the GST, indicates that on his modelling the retail trade is likely to lose 5,000 jobs across Australia, which means that overall it is negative for the retail trade.

Mr Steven—How does he come up with those figures?

Senator MURRAY—I will not go into the detail of it, but the fact is that your prices go up, therefore demand goes down and you lose jobs. That is the economic assumption. My question—and it is a long lead-up but I want you to understand the framework—is: are your members as a whole supporting the tax package because you believe that it is, as a package, good for Australia? Or are they supporting it because they believe it is good for the retail industry? If you can separate out those two for me it would help.

Mr Steven—I do not think it can be completely separated. The issue is that along with the GST being put into place there will be other tax reductions, and therefore people will be taking more home in their pockets and prices will go up. We do not see it as an individual GST element; it is a total package. Without one we would never accept the other. What I am trying to say to you is that we accept the fact that the package has to be implemented as a whole. We accept that the retailers will be burdened to an extent, but it will be offset to an extent by the other measures of the package, such as the reductions in taxes and the abolition of other taxes.

Proceedings suspended from 12.29 p.m. to 1.30 p.m.

BACON, Mr Jim, Premier, Government of Tasmania**CREAN, Dr David Mackenzie, Treasurer, Government of Tasmania**

CHAIR—The committee will resume its hearing. I welcome the Premier of Tasmania, The Hon. Jim Bacon, and the Treasurer of Tasmania, the Hon. Dr David Crean. You know the format, I think. You might start with a reasonably succinct presentation of your point of view and then you might be kind enough to be available to answer questions from the committee.

Mr Bacon—Thank you, Mr Chairman and senators. We are delighted to be here and we will certainly be delighted to answer any questions about what we put to you. We do thank you for the opportunity of appearing in front of you to put this submission from the Tasmanian government.

Our position on the Commonwealth government's package, a new tax system and the GST, has always been clear. We do not support the introduction of a GST. There are aspects of the tax package which will impact more negatively on Tasmania than on other states of Australia as a whole.

I should point out to the committee that the Tasmanian government participated in the Special Premiers Conference that was held last year. In fact, I represented the state there, together with the Treasurer. We did take part in those discussions with the Commonwealth and the other states and territories about the Commonwealth-state financial arrangements side of the tax package. This was done because we had to assume that the tax plan announced by the Commonwealth in August of last year would be implemented.

However, our participation in those discussions did not imply support or in principle endorsement of the GST, and that was made quite clear at the meeting. In fact, in the document that was arrived at the governments of Queensland, New South Wales and Tasmania had it specifically recorded that their agreement for the Commonwealth-state financial relations side of it could not be interpreted as being support for a GST.

The Treasurer will shortly take you through the economic circumstances facing Tasmania and highlight the negative impact of a GST on the state, because it has become increasingly clear to us that evidence to support many of the negative impacts has arisen as a result of this committee's investigation. That is particularly so in relation to evidence from modelling undertaken for the committee by Professor Dixon and Chris Murphy, and that has increased our concern about the impact on Tasmania. We are thankful to the committee for undertaking and examining in more detail the potential impacts on the economy of a GST. We believe that the modelling contrasts starkly with the information that is in the public domain from the Commonwealth government and their Treasury's modelling and assumptions about economic growth and job growth.

I would like to flag here two important concerns raised in our submission and which the Treasurer will further elaborate on. A particular concern, for example, is the Econtech estimate of the impact on Tasmanian state employment of a loss of 1,000 jobs. The impact of this should not be understated. Tasmania consistently has had a much higher unemployment rate than the other states and territories, and a greater proportion of unemployed folk in Tasmania are long-term unemployed. So the impact of losing a further 1,000 jobs on top of our current situation would certainly in our estimation—and we see verified in the Econtech estimate—be a blow which the state's economy and those who are unemployed, particularly, could not easily handle. The tax package really does nothing to address this issue of the impact on employment by tackling issues such as reskilling or retraining, or specific regional development initiatives to assist workers' families and communities.

Another significant impact which will be elaborated on is the impact on households and individuals in Tasmania. Average incomes in Tasmania are much lower than the national figures and Tasmania has a relatively high proportion of residents reliant on Commonwealth welfare transfers as their sole source of income. And given realistic assumptions about expenditure patterns for these households, and realistic assumptions about the likely price rises from a GST, it is clear that the compensation package offered by the Commonwealth will leave many Tasmanian families financially disadvantaged.

We believe it is important for the committee to recognise that Tasmania, because of the structure of its economy, and because of the Tasmanian government's financial position and Tasmania's socioeconomic circumstances, is in a very vulnerable position and has limited capacity to deal with the substantial changes that a GST will impose.

We believe that we do have a specific case that can be argued. Tasmania as a whole is part of regional Australia and, whilst we do believe that the impact on Tasmania will not necessarily be duplicated in other more robust state economies, as the Tasmanian government we are particularly concerned about its impact on our economy, of course. We believe there are specific characteristics of the Tasmanian economy that the committee should take into account. I will pass over to the Treasurer for a more detailed overview of our submission.

Dr Crean—I thank the committee for the opportunity to be here today. As the Premier has indicated, we have always had concern about the impact of the tax package and the GST on the Tasmanian economy. Firstly, our concern has been significantly heightened by the recent modelling that has been conducted through your committees which casts serious doubt about the adequacy of the compensation package. Secondly, it raises serious concerns about employment in Tasmania and the so-called benefits to export industries and manufacturing industries as a result of the package.

I want to give an overview first of all of the Tasmanian economy to give the committee a clear understanding of exactly the circumstances that we are in and why we as a government are very worried by the negative impacts the tax package and the GST would have on our economy, based on the recent modelling.

On any economic measurement, Tasmania has been in significant economic decline relative to the rest of Australia over the last six years. This is highlighted by the fact that over this period economic growth, for example, has been just one-sixth of growth in Australia as a whole. Business investment, the generator of economic growth, has been significantly below the national average. Our employment growth over this period has been around two per cent compared to 11 per cent for the nation as a whole. We have the stark reminder of our employment situation in Tasmania: Tasmania now employs something like 8,000 fewer than we did at the beginning of the decade, whereas Australia as a whole employs over 700,000 more people over that same period.

We have an unemployment rate which is stuck above 10 per cent, and three percentage points above the national average. We have a participation rate that is so chronically low that people are not only dropping out of the work force but are actually leaving the state. That has resulted in a population decline in Tasmania for the first time since 1941. And all this is at a time when there are positive macro-economic effects occurring such as falling interest rates, low inflation, and favourable export dollar exchange rates.

The economic bottom line in relation to this is that it illustrates Tasmania as a small economy with significant structural problems, starved of domestic demand and unable to take any more hits. We believe, and we are very concerned, that the tax package will give us a

number of hits. Based on the modelling presented to the committee, these hits would include, firstly, reduced employment, secondly, reduced consumer spending—both of which exacerbate Tasmania's economic decline—and, thirdly, significant social consequences due to the increased financial pressure on the large number of low income household and welfare recipients in this state.

In terms of reduced employment, the Murphy model shows that Tasmania would lose something like 1,000 jobs. This does not take into account the peculiar situation of our manufacturing industry in this state: whilst the manufacturing industry has been on a par with the rest of Australia in terms of profits, this has not been translated into increased investment in Tasmania, whereas it has in the rest of Australia. We believe this fact would significantly increase the number of unemployed, based on the Murphy model.

In terms of reduced consumer spending, if the modelling of the Melbourne Institute of Applied Economic and Social Research is correct, real spending will reduce because of the inadequate compensation package involved with the new tax scheme. This will further depress our already low consumer expenditure which will have that negative impact on demand and negative consequences for our economy. In terms of the undercompensation with the package, again, if this is correct it will have significant social consequences because Tasmania has the lowest average household income per capita and the highest percentage of its population as welfare recipients.

On the basis of our economic circumstances and the fact that we cannot have any more negative impacts on this fragile declining economy, you can understand why the Premier and I, and the government, have serious concerns about this package and why we have presented these concerns to you here today. Thank you.

CHAIR—That concludes your oral presentation to us?

Mr Bacon—You have all got copies of the written submission, I take it.

Senator MACKAY—Yes.

Senator GIBSON—I think you have misrepresented some of the evidence that has been given to this committee. The key points I want to make are, firstly, with regard to the jobs numbers and misrepresentation of what Murphy actually said. Secondly, I want to refute your claim that real spending will go down. There is good evidence that in fact people's incomes will be better off after the tax package. The third point I want to make with you and seek your comments on is: isn't it true that the fundamental problem with Tasmania is that we have had 15 years of green politics? The Wesley Vale fiasco, which was, in the ultimate, a federal Labor government decision, really killed investment in Tasmania.

Mr Bacon—I have to say, Senator Gibson, that I think it would be extremely simplistic to suggest that the entire problems that the Treasurer and I have outlined about the economy are due to the failure of one project to get off the ground.

Senator GIBSON—No, I did not say that.

Mr Bacon—Certainly, we would both agree that the impact of green politics, as you say, has not been helpful to Tasmania in every respect, but there is a new situation. We are a majority government which was elected at the election last year. We certainly are getting on with the job, as you, Senator Watson and other Tasmanian senators would be aware. For instance, we are working very hard on the proposed magnesite magnesium project.

Senator GIBSON—And we want to help you.

Mr Bacon—I am glad to hear the Commonwealth wants to help. We are very grateful.

Senator GIBSON—No, I mean Tasmanian senators want to help you. I cannot speak on behalf of the Commonwealth.

Mr Bacon—Well, we are very grateful for your help as well, in whatever form. I think the point needs to be made that that is a major project, even bigger than was the proposed pulp mill at Wesley Vale. Industries like tourism and some of the small wine producers—we have only small wine producers in Tasmania—are areas where there has been growing employment over the last 10 years, which is a very welcome thing. The impact on those industries in particular is of serious concern because we think both those industries have potential for a great deal more growth. The tourism industry, in partnership with the government, and with the previous government, has very ambitious plans for growth into the future that we think are quite realisable—but they have already expressed their concern, I understand, to you and we certainly agree with them.

Senator GIBSON—Can I take you back to the jobs question. The numbers you quoted from Econtech, Mr Chris Murphy, in your report are correct—that is direct from his report. But you need to understand that, in order to make their economic models, Mr Murphy and Professor Dixon, each of the economic modellers who gave evidence to us, had to make the assumption that there was no growth at all in employment in the Australian economy. That was the fundamental assumption for building their economic models. The table that you have produced in your submission is Murphy's estimate of what will be the redistribution in Australia, given no growth at all in employment. But Murphy disagrees with the statement that there will be no jobs growth in Tasmania. In fact, I checked with his office this morning. So, when you take what he was assuming—just a redistribution, given no jobs growth—and then add on that the jobs growth which will occur throughout Australia, there will be jobs growth for Tasmania.

Mr Bacon—With respect, that is what we are concerned about: the impact of the change to the tax arrangements.

Senator GIBSON—Yes, I know.

Mr Bacon—As the Treasurer outlined, it is the impact. Whereas in a more robust, larger economy it might be all right to say, 'We'll lose jobs here, but we're going to pick them up over there,' in Tasmania very often that means that we lose jobs and Victoria or New South Wales pick them up. So it is not much comfort for us to know that there may be other jobs come somewhere else if in the meantime we are losing them here.

Senator GIBSON—But we will not be losing them. That is misleading. What Murphy was talking about was just a change, assuming no change in employment. It is not the actual growth in employment. There will be growth in employment here. That is what Murphy is basically saying. I believe you have misinterpreted what he and Professor Dixon, and each of the economic modellers, put before us. Again the reason is, they all said, that in order to make those economic models—and that is all they are; they are just mathematical equations of the complex economy—work, they have got to assume no growth in employment.

Dr Crean—What Mr Murphy would not have considered in his modelling—and I notice that he has predicted a significant growth in jobs in the manufacturing industry—is the peculiar nature of manufacturing industry in Tasmania. If you go to table 1 on page 11, you will see that our manufacturing industries have had a significant increase in profitability, as have Australian manufacturing industries. But, whereas in Australia this is being translated into increased investment and greater production, it is not the case in Tasmania. We believe that is because these manufacturing industries in Tasmania by and large have their parent outside the state. They take the profits in Tasmania and do not reinvest them in Tasmania. If, as the

modelling shows, there is some increased profitability for manufacturing industries, what we are saying is that in Tasmania all the evidence shows that that will not be translated into increased investment as it is elsewhere in Australia. That is something peculiar to Tasmania and is one of the structural reasons in fact why Tasmania has been in relative economic decline.

Senator GIBSON—I agree there is no question about being in relative economic decline. As you rightly point out, the reason is that there has been no capital expenditure here, particularly in manufacturing—as you know, I came from that industry—and that is basically because of green politics. That is what has happened. That is the harsh reality.

Mr Bacon—Even if we were to accept that totally, it does not alter the argument that we are putting, which is that the manufacturing industry in Tasmania is narrower in focus and there are specific reasons. Because we are an island economy, we cannot be lumped in with everyone else and expect that a model will turn out the same in Tasmania as it does elsewhere. That is the specific point we are making.

Dr Crean—Just to specifically debunk that, we had four years of Mr Groom's government—a majority government—and this same level of decline and this same pattern happened. It is not related to that. It is related to the structural nature of our manufacturing industry and this will be impacted upon by the GST.

Senator GIBSON—Without taking it too far, the pulp and paper industry is a good example of being in decline here. The basic reason was that decision 11 years ago. That is what happened. Everyone in Tasmania knows that. We have to encourage investment. We wish you well in encouraging investment here.

Can I move on to income distribution. You have quoted the Melbourne Institute. The Melbourne Institute also was used by ACOSS and they have given a report to us which shows that all groups that they examined were better off. The cost increases facing all groups that they examined were less than the four per cent increase in allowances and pensions, et cetera, which the Commonwealth is committed to pay under the ANTS package. So it is wrong to say that people would be worse off. You quoted the indirect costs. What you have not looked at is the decrease in income tax. Income tax will come down substantially—\$13 billion for all Australians. Also there will be increased family allowance.

Mr Bacon—As I said to you, Senator, and as you well know, we have a higher proportion of people here who live solely on Commonwealth benefits. In fact, it is around 32 per cent of income earners in Tasmania.

Senator GIBSON—Yes, compared with 29 per cent.

Mr Bacon—Yes. The impact of income tax changes is relatively less in Tasmania, quite apart from the fact that we also have the lowest earnings of any state in Australia.

Dr Crean—Are you saying that the modelling being presented to this committee is wrong?

Senator GIBSON—No, I am saying that what you have quoted from the Melbourne Institute is one part of it. But ACOSS, who have used the same modeller to examine the same hard data, came to the conclusion that of all the groups that they looked at—and we are talking about the lower income groups and the disadvantaged groups—no group was facing a cost increase of four per cent. They were all less than four per cent.

Dr Crean—I do not believe that is what the modelling by this institute is saying. I think it has direct impacts on—

Senator GIBSON—They were the modellers for ACOSS.

Dr Crean—We have read through the modelling in some detail. We have based our assessment and Treasury have based their assessment on that modelling. This is the conclusion that they have come to.

Senator GIBSON—GST will go to all states and will be distributed according to the Grants Commission relativities. I notice in your report that you acknowledge that, in the longer run, all the states will be better off as a consequence.

Mr Bacon—Provided it is a growing source of revenue.

Senator GIBSON—It is sure to be.

Mr Bacon—We will write that down. We will remember.

Senator GIBSON—The Prime Minister has also said that no state will be worse off in the interim period when we move from the current system to the new system.

Mr Bacon—We accept that. As I said at the outset, we have met and been part of the Special Premiers Conference. We agreed to those arrangements. We do think there are some outstanding issues that we will be taking up with the Commonwealth at the Premiers Conference this year. I understand this committee today is not specifically about Commonwealth-state financial relations. We are quite confident that we can carry on that discussion with the Commonwealth, as we undoubtedly will. What we are doing here today is talking more particularly about the effect on the Tasmanian economy. We are more than satisfied to continue discussing with the Commonwealth directly Commonwealth-state financial relations.

Senator GIBSON—And I know you are discussing these matters with the Commonwealth, and continue negotiations. I have one final question. You happen to mention in here the big impact that the new tax package is going to have on the transport industry. The estimates are that for the total road transport industry for Australia, across the whole nation, costs will be lower by 6.7 per cent. The Australian Road Transport Forum, which is the organisation representing big truckies, the big trucks on the highways, estimate that the costs of trucking will go down by between 15 per cent and 19 per cent. This will have a huge impact on the costs here in Tasmania because we are a very decentralised and spread out community.

Mr Bacon—Except very short distances.

Senator GIBSON—Yes, but still we are talking about big changes in transport costs. So it is not only a huge reduction in costs for trucks, but also a big cost reduction across Bass Strait, as you know, with removing the excise for both commercial traffic across Bass Strait and the Incat ferry, assuming that returns there.

Dr Crean—In terms of the transport costs as well, that is factored into the savings of businesses, particularly export businesses. And I was shocked, quite frankly—given that the federal Treasurer had consistently said that this tax package will deliver some billions to export industries in reduced cost—to find out that both the federal Treasury and other modelling has shown that that will be substantially wiped out by an appreciation in the Australian dollar as a result of the tax package. That was of great concern.

Senator GIBSON—It depends on which industry, of course.

Dr Crean—We are talking about export industries here, and it was a general analysis of the overall reduced costs. I think one modelling said of the order of four per cent would be wiped out by the appreciation in the Australian dollar. I just find it incredible that billions of taxpayers' dollars are given in this respect to be wiped out by conditions beyond our control. That is something that was not made clear in the early stages of the tax package.

Senator O'CHEE—With respect, it was not quite what the modellers said. They said that, as a result of the increased level of exports, including exports from Tasmania, there would be an appreciation of the dollar. They did not come to the conclusion that that would wipe out the extra sales. They said it was a consequence of those sales.

Dr Crean—What they said was, quite clearly, that the increased competitiveness of export industries as a result of the reduction of costs would be wiped out by the appreciation of the Australian dollar because the overseas markets made a judgment as to the increased competitiveness. That is what the modelling said.

Senator MURRAY—Premier, I want to formally acknowledge your presence here because the importance of the states having their say in this should not be underestimated. I very much appreciate the honesty and openness with which you and your Treasurer have expressed your viewpoint. As I understand the point you are making, the unamended package will not deliver positive results to Tasmania overall, and I think in your conclusion you have said this about the benefits on the financial side, on page 15:

However, on current estimates, the Tasmanian Government will not be better off financially under the package until about year five of the reforms.

Commonwealth-state relations are very much a part of this committee's brief.

We are told, or we have been told by the Treasurer amongst others—not directly to the committee but the community as a whole—that the package should not be amended. He said the package should not be amended, and this was confirmed by Liberal and National Party senators and members, and by the Prime Minister, because they have a mandate and, secondly, it should not be amended because, if it is significantly amended, it will affect the agreement that they have with the states.

I read your submission as saying that, if this package was amended, for instance to take account of wine and tourism needs, and particularly of compensation needs, it would improve the package as far as Tasmania is concerned. What I would like to ask you as Premier is, firstly, do you accept the Treasurer's mandate argument and, secondly, do you accept the Treasurer's argument that the package should be accepted as it is, and either rejected or accepted as it is and not amended?

Mr Bacon—Can I say that we accept that the federal government is the federal government, and that they have a majority in the House of Representatives and, as such, they are entitled, just as we are here, to introduce whatever legislation they like and believe is appropriate and to pursue that. We recognise that the federal government has the right to advance its policy.

We also, though, are very glad to have this opportunity, as a state that believes it is going to be in very specific ways and for specific reasons disadvantaged by this package, to come before a Senate committee to put our case for our state. Certainly, if the package was to be amended so that it could take away those fears that we have, we would be much more comfortable entering into the arrangement with the Commonwealth about future arrangements.

Whilst we have done that, we have always been of the view that the effect on the Tasmanian economy was going to be negative. I do not know if that has answered your question, but certainly we believe that there need to be amendments to it, and it would not necessarily mean that the agreement between the states and the Commonwealth had to be abandoned.

Senator MURRAY—I also read your submission—my interpretation, but I would like you to confirm it—as saying the following: that Tasmania is doing it the hardest of all the states and therefore needs particular attention paid to it. Without drawing too long a bow, it is similar

to the argument that those who are worst off in our society are saying, 'Look, we are the people who need to be cared for.' The inference of that is, although your judgment is that overall Tasmania does not benefit on balance, you cannot automatically follow from that that other states have the same view, because they may well benefit.

Throughout this series of committee hearings, we have heard from countless people, some of whom are losers and some of whom are winners. I think part of our task is to make you more of a winner, if I may say so. The nub of my question is this: would you accept that it is possible to amend this package such that Tasmania's disadvantaged position could be improved on balance?

Mr Bacon—I obviously believe it can be or we would not be putting in a submission. We are doing it in a genuine attempt to have Tasmania's situation recognised. We are a relatively new government; we have been in power for just six months. We have already taken a number of decisions and we have put in train processes which we believe ultimately will assist Tasmania's economic recovery. That will not happen overnight. We are particularly concerned that the imposition of Commonwealth tax changes which further disadvantage us will in effect take away all the benefit of what we are trying to do to reorient and to revitalise the Tasmanian economy.

Certainly we believe there could be amendments that would be of assistance to us. We do not pretend that that is the total answer to the problems of the Tasmanian economy. The Treasurer and I—and the Treasurer in his budget speech last year—outlined a comprehensive industry development plan for the state for the first time ever. We are well under way with that and we will continue whatever happens. But we are anxious that there is not another blow to the Tasmanian economy while we are getting that to a stage where it starts to bear fruit for us.

Senator MURRAY—My last question is on payroll tax. Senator Gibson indicated the importance of the fuel cost changes. We have had some views put to us that the economic effects of getting rid of payroll tax would be greater than the economic effects of the government's fuel changes, but of course there is always a limited pot that you can do these things with, so we understand that. How important is getting rid of payroll tax for Tasmania in terms of motivation for manufacturing and large businesses?

Dr Crean—In the budget we presented a great deal of detail about this. What we were able to clearly show was that, in terms of overall cost to businesses in Tasmania—which included payroll tax, wages and salaries, fringe benefits tax and superannuation alike; all those things that are considered costs to business as payroll tax is—we have the second lowest cost per employee in Australia, and way below the national average. What we were trying to indicate there was that we are competitive in terms of costs but, for a range of other reasons, we have suffered economic decline—our basic structural problems, the various barriers that are exposed to small export industries in a state that suffers from the problems of lack of economy of scope and scale and so on. That is basically what our industry plan is built around—correcting those individual barriers. But in terms of industry costs we are competitive.

I think it illustrates also that in a relatively low wage economy, of which Tasmania is the classic example in Australia, it is not necessarily conducive to increased economic output. In fact we have the lowest average wages in Australia, yet we have the poorest performing economy in Australia by far.

Mr Bacon—And the highest unemployment.

Dr Crean—So I think there is a clear message in that one as well.

CHAIR—I note your interest, Senator Watson, but I am sharing the call around on a time basis per party. If there is some time over I will come back to you.

Senator SHERRY—Can I just go to transport costs? You have been asked about that. I do not know whether you are aware—this is the government's political document, referred to as ANTS—that the price effect, the effect that the users of transport will have to pay by way of increase—and it is an increase in road transport costs—is 2.6 per cent. And—I think of particular concern to Tasmania—the increase in rail costs is 5.8 per cent. Given those figures, do you see any advantage in terms of transport costs to Tasmania as a result of this package?

Mr Bacon—David may wish to add to this, but I think it is of limited value if in fact there are savings in costs. As I pointed out, within Tasmania transport itself is a lesser component of costs than it would be in many other states which are subject to longer distances. Of course Bass Strait is a very significant issue for Tasmania, but we are concerned about the future of the freight equalisation scheme and the wheat subsidy, for instance. And, whilst we would certainly welcome the proposed changes in terms of diesel fuel so that the catamarans could run cheaper, which would be of benefit, the catamarans are very far off being the main vessels for freight in and out of Tasmania.

As you are aware, Senator Gibson, from where you come from, freight equalisation is a very important component of the business of many Tasmanian exporters, and we would want to look at the total impact and see what the future of that scheme is. Particularly of concern at the moment is the wheat subsidy scheme which has the potential, if it is not continued, to put up the price of every product in Tasmania. Currently Maypole bread, for instance, people's staple diet, could be impacted. We keep getting told, Senator Watson—and we are waiting to hear—that that is all finalised. We will be very glad if it is.

Senator SHERRY—I just go to the Murphy model because there has been some significant discussion about that. The chart of the Murphy model, unfortunately, shows that there is a significant decline in employment—1,000 jobs in Tasmania and 5,000 jobs in Queensland—and there are job gains in Western Australia, South Australia and New South Wales. There is no dispute that there is a shift in employment from some areas of Australia to other areas of Australia. Isn't it true that, given the proportionate loss of jobs to Tasmania with 1,000 jobs transferred out of this state, even if you were wildly optimistic and assumed employment growth as a result of a GST—Treasury assumed no employment growth and Murphy assumes no employment growth—it does not necessarily mean there will be any jobs growth in Tasmania?

Dr Crean—As I mentioned, one of the major concerns in the Tasmanian economy is the lack of jobs for a number of reasons. The lack of jobs reduces the domestic demand which we are suffering in a big way in this state. Lack of jobs knocks people out of the work force, as is evidenced by our low participation rate. The chronic lack of jobs over the last six years or so has caused an increasing number of people to get so discouraged that they have not only dropped out of the work force but also left for interstate where the job prospects are better. Hence, the population decline, which is a very serious concern to this state and which is illustrated graphically in the document that we have presented. Jobs are a central element of the Tasmanian economy for those reasons.

Senator SHERRY—I quote you what Mr Murphy said when I questioned him about this in Canberra. In reference to state effects, he said:

This model assumes that national unemployment is unchanged.

But he went on:

That means whatever economic change you simulate within it there will be job shifting between industries and between states.

He continued with what I think is a grossly unclear comment that:

If the proposition is that a job loss in some industry or some state is a reason for vetoing economic change, you would have to be against every economic change in the future and, for that matter, every economic change that has occurred in the past. We would still literally be living in caves.

I would paraphrase that as him saying, 'Well, it might be in the national good and, if it is not for the good of Tasmania, tough luck.' What is your attitude to that sort of approach to the Tasmanian economy?

Dr Crean—We obviously are here to speak for Tasmania and we do not speak for anyone else. There is no question that the Tasmanian economy cannot stand the loss of any more jobs. It is our determination. We accept that we have the greatest responsibility in terms of the Tasmanian economy and we do not shrink from that one inch. We are very pleased to have that responsibility and we will get on with the job. However, to suggest that the national parliament should ignore one of the sovereign states of the Commonwealth and just say, 'They are only jobs in Tasmania, so that does not matter,' is totally unacceptable to us.

I think that, for the good of a nation as a whole, we do need to look at the fact that regional Australia, which includes all of Tasmania, has been missing out and in decline as a result of many of the economic changes that presumably he is referring to. We do not want to see that exacerbated in Tasmania's case.

Senator SHERRY—He also said that job shifts of this size are small relative to the normal flows of interstate migration. I assume that he was not aware that Tasmania has a declining population. Presumably the job losses and the people flowing out of the state did not present as a problem.

I go on to one other issue: the issue of compensation. You rightly raise the fact that Tasmania, being a low income state and also having an ageing population, has a higher than average number of social security recipients. Are you aware that Mr Carmody, who as a former Treasury official designed the previous Liberal package of Fightback and who supports the GST, at our committee hearing in Melbourne criticised the compensation package and went to the point that he believed it was inadequate and would be eroded very rapidly over time? As a consequence, people would not be better off in two or three years time unless certain safeguards were put into effect. In your opinion, how do you safeguard the interests of low and middle income Tasmanians to lock in long term any sort of compensation package?

Dr Crean—I was not aware of the comments, but I think it substantiates what I was saying before on the evidence we have put in our submission about the inadequacy of the compensation package which Senator Gibson disputed. Obviously, it is a concern because, as we have said, Tasmania has the lowest average household income per capita in Australia and the highest proportion of its population as welfare recipients. How do you get those people through a situation where they are going to be adversely impacted on? It is a very difficult position. There could be calls on the state to provide compensation. If that is not forthcoming, they then suffer, and we are not prepared to see the people of Tasmania suffer because an action by the federal government impinges upon them.

Senator MACKAY—I think the Premier has outlined very well the fragility of the Tasmanian economy. I will not go through the variables that are in Tasmania which make us a uniquely regional microcosm in terms of regional Australia. I would like to follow up briefly

the question of the compensation issue. Do you have any comment on the Grants Commission allocation to Tasmania which is done on the basis of a weighting system, having regard to specific variables in Tasmania and the compensation package that the government is proposing to put into place which is essentially done on a per capita basis? There is no account taken of a small regional economy which has, for example, the highest petrol prices and highest grocery prices of any state in Australia. I would like you to comment on that.

Secondly, going to the previous question by Senator Murray on proposed amendments to the package, I do not wish to lead you, but it seems to me that you are saying that the most acceptable amendment would be no GST in relation to the Tasmanian economy.

Dr Crean—I think in relation to the Grants Commission illustration, the Grants Commission relativity was brought in to provide an equalisation for those states that did not have the advantages that larger states had and could provide the same level of service, on average, that the other states could provide. In terms of applying that to compensation, I think that is a good point because the per capita argument provides us with relatively little compensation compared to an equalisation process that would be applied through the Grants Commission.

As far as the GST is concerned: would we want it or wouldn't we? The fact is that we are here today to present a case to show the significant impact that the GST would have on this state. We believe that the best outcome for us would be no GST but, in the event beyond our control that a GST was brought in, on the basis of what we have presented today we would want those significant issues addressed in some way satisfactory to the government of Tasmania.

Senator MACKAY—That would be pretty difficult, given the plethora of variables you have talked about.

Dr Crean—There are a whole lot of variables, and it would be a complex situation. As I said, the easiest solution for Tasmania would be no GST, in view of the impact, but that is not within this government's control. As well as presenting the case here today against a GST, we have presented the case of the impact of a GST, in the event that it comes in—that we would expect those areas to be significantly addressed.

Senator HARRADINE—I am conscious of the time, and I would like also to associate myself with the comments expressing the committee's appreciation that the Premier and the Treasurer of Tasmania have come to give us the views of their government. It is an important question. I notice on page 5 of your submission you say:

The key growth industries in Tasmania and those with the greatest growth prospects are food and beverages (including wine) production, aquaculture, and personal and recreation and entertainment services geared to tourism.

Could I mention that we had evidence this morning to the extent that 10 per cent of employment in Tasmania is by and large in the tourist industry.

In MM303, isn't it a fact that the sorts of service industries which Tasmania relies on are: the agriculture, forestry and fishing industry; electricity, gas and water; retail trade; hotel accommodation, cafes and restaurants; transport; communication services; government administration; cultural and recreational services; and personal and other services?

Mr Bacon—Yes.

Senator HARRADINE—And all of those under MM303 are going to suffer significant job losses?

Mr Bacon—I would add, Senator Harradine, that, as you will be aware, though some other members of the committee might not, Tasmania's tourist market is predominantly the domestic Australian market for tourists, not international tourists.

Senator HARRADINE—Yes, we heard that this morning.

Mr Bacon—Whilst that number is growing, it is a very small percentage of the total number of visitors to Tasmania. So, certainly, any rebate of GST to international visitors would be relatively less helpful in negating or ameliorating the impact on tourism than it would be in Tasmania, because such a high percentage of our tourists come from south-east Australia. They are very welcome here, but we do not want them to have to pay extra to get here, particularly at a time when tourism is very price sensitive and we are in many ways competing with destinations like Bali, Fiji and so on, which, because of factors quite out of our control, are relatively cheap.

Senator HARRADINE—Could I draw your attention to MM303, in which it says:

While there are small shifts in employment between industries, within each state economy these shifts are largely offsetting because most states have fairly diverse industrial bases.

Does that apply to Tasmania?

Mr Bacon—We have done a lot of work on this. It is not a fact in Tasmania; we do have a narrower economic base than other states, which is due simply to the outcome of our size and the fact that we are an island economy, but it is a fact. That is why tourism, for instance, which is an industry that has been identified as having very significant growth prospects in terms of employment, is so relatively important to us, because we do not have all the financial service jobs and so on from growth that has been seen in other states. That has not occurred in Tasmania. In fact, most of the insurance companies, the banks and many other financial institutions have withdrawn jobs from Tasmania in recent years. There are no longer any state managers of insurance companies—with the exception of one of the major banks—in Tasmania. They are all now in Melbourne.

Senator HARRADINE—Some of the big winners under that modelling of the GST are finance and insurance. We do not generally participate—that is not a big factor.

Mr Bacon—No, to a much lower extent. In fact, we have lost whole layers of jobs in financial services out of the state and I think it is unlikely that that is about to reverse all of a sudden. The point is very clear that job shifting is all very well but if in our case there are not the industries where the jobs are going to shift to then it very definitely means that the job shift will be out of Tasmania.

Senator HARRADINE—Senator Sherry has adverted to the evidence given to us on Wednesday by Mr Carmody in respect of personal compensation. What about compensation to a state which is clearly seriously affected by the GST, leaving aside the Commonwealth Grants Commission aspect? Has thought been given to that? I know that Dr Crean, the Treasurer, did say that the best way to deal with it was to have no GST, but nevertheless this committee is open to advice on other ways, as Senator Murray has indicated, to approach the matter. What do you recommend?

Mr Bacon—We certainly believe that there are a range of options open to the Commonwealth in relation to assisting a specific regional economy like Tasmania. I referred earlier to potential projects in Tasmania. We believe that there are significant infrastructure issues to do with those in which Tasmania is relatively disadvantaged compared with other states.

If we are going to adopt the principles of horizontal equalisation, that argument can well apply in many areas.

We think there is considerable potential for the Commonwealth to work with the state government to have a specific package addressing the impact on Tasmania and we would certainly like to see that. We will continue to negotiate with the Commonwealth on all the issues that are between us currently including not only general financial relations but also discussions about the potential projects, et cetera. We will continue to do that regardless. Certainly, in the context of the impact the GST may have, we think that would call for an increased effort from the Commonwealth.

Senator HARRADINE—A very important point I think is that the Commonwealth has said that if the GST is introduced it will remain at the 10 per cent level unless all the premiers agreed. From my understanding and long experience with premiers, I have never seen them knock back an opportunity of getting a bit of money no matter what states they come from. There may be pressure amongst the premiers to increase that figure to, say, 15 per cent, as has been done in New Zealand, for example. I know that they are a unitary system. What do you think is the way to go in setting that in concrete—legislation federally? What about each state? Would each state be thinking about legislating to ensure that there was no increase in the 10 per cent?

Mr Bacon—We would support the federal government having legislation which entrenched it. We have not considered the possibility of state legislation.

Senator HARRADINE—The premiers have not considered that?

Mr Bacon—No.

Senator HARRADINE—Have they agreed?

Mr Bacon—I have supported the views that the Premier of Victoria put forward that the undertakings in relation to future possible changes should be put in legislation, and we agree with that. We have not considered state based legislation. Can I say that we would not support an increase, certainly not in view of what we have outlined in this submission. I must say the Treasurer and I may be still novices at handling state and Commonwealth financial relations but we are not so naive as to believe that there could not be pressure put by the Commonwealth on the states to agree to an increase.

Senator MACKAY—Health funding, for example.

Mr Bacon—Yes, and we have had enough experience in our first six months to know that what appears to be very clear cut and straightforward can all of a sudden disappear. So we certainly would not want to see a situation where we were pressured into supporting some increase, and I think it should be legislated that there will be no increase without the agreement. As I say, we would not support an increase on the basis of this submission. We are saying that it has negative impacts on Tasmania and an increased GST would have even worse impacts.

CHAIR—We are now out of time according to the program allocated to the Tasmanian government but there is a request for some further questioning. If I allow that, we will eat into the time for the next witness. This is the first government that has been represented at the level of Premier and Treasurer and the committee does appreciate that. I do not want to artificially cramp the committee's limits on an occasion like this so I will allow some more questions.

Senator WATSON—There has naturally been a lot of concern about some of the established manufacturing industries in Tasmania and the loss of employment there. I would like to put

a more positive spin on it in that, particularly along the north-west coast, we have some very enterprising young new industries associated with pyrethrum, the dairy industry and the mining communication company, Minecome—all export industries—classic foods, cheese, aquaculture, and so on. These are industries where I believe there is going to be future growth and it is going to be fairly positive. Of all the industries, of course, export industries are going to be the big beneficiaries—and there has been some dispute as to the actual extent of it. Surely we must be trying to encourage these new entrepreneurial industries. Some of them, admittedly, are fairly small, but they have got tremendous growth potential and they move very quickly in a short time. Here is an opportunity through a GST, which might cause some dislocation—we have put a lot of emphasis on the transition problems—but I think we have got to look to the long term. Would you agree that we do have an advantage in some of the entrepreneurial skills in this state which need further encouragement and exploitation and that here is an opportunity to encourage these industries?

Mr Bacon—The Treasurer will answer in more detail but of course we are aware and we are very proud of a number of the enterprises in Tasmania which, despite the situation we have described, have managed to grow and develop new markets and create some jobs. But I must point out, as you are aware, Senator Watson, that these are mainly small to medium sized enterprises. Certainly, the potential is there for growth, but we think that the impact on industries, such as Senator Harradine was referring to, might well wipe out all of that employment growth. That is a situation which really would leave a very unbalanced position in Tasmania.

Senator WATSON—I just want to try and be a little bit positive in view of some of the developments. They have been very good developments and, of course, Crest will be part of that if we can get that off the ground.

Dr Crean—The issue is: will the GST benefit that development? If you look at the types of industries that we are talking about, it gets back to the cost issue that I mentioned before. Basically, the positive aspect of the GST is reduced costs, but there is a whole range of other issues that impact on these industries in Tasmania. Access to finance, for instance, is a significant barrier to many industries.

In terms of exports, according to the modelling, that competitiveness that is created by reduced costs is substantially wiped out by the appreciation in the Australian dollar. Whilst it is okay to put a positive spin on these things you have to look at the other side. I must say that I was alarmed when I saw the modelling that indicated an appreciation of the dollar wiping out the benefits.

Mr Bacon—And you would be aware, Senator Watson, that we do have high exports per capita. We are perhaps therefore more susceptible to changes in the value of the dollar than some other states.

Senator WATSON—This morning we had a very good presentation from the wine industry. There is one thing we would like to get from the Tasmanian government. The wine tax component was taken over by the federal government. States have the power, if they wish, to remit some of that back. Do you intend to do that?

Mr Bacon—We already do.

Senator WATSON—To what extent?

Mr Bacon—We do not want to have to make up for disadvantageous tax changes by the Commonwealth. We have limited financial capacity to do that.

Senator WATSON—But you gave a rebate or discount before.

Mr Bacon—Yes.

Senator WATSON—Will you continue to do that?

Mr Bacon—We will continue to do that at the level we currently do, but if we have a situation where the demand goes up, we have limited capacity to take it further.

I have met extensively with the wine industry in the state and they are very worried about this. Their concern is twofold. It is not only the tax; it is a concern about tourism. Many of them rely on a tourism factor as part of their business for cash flow and for their investment to grow. It is even more important here. These are small wineries that rely on cellar door sales and tourist type activities to fund the growth of the wine production side.

Senator WATSON—Once we have overcome this—

CHAIR—Senator Watson, can we leave it there.

Senator SHERRY—Mr Chairman, I thought Senator Watson was going to repeat his criticisms of this package that he made publicly in calling for changes in the advice he gave to the Prime Minister.

CHAIR—That is a matter for Senator Watson, if he chooses.

Mr Bacon—I was not going to be uncharitable and raise that. I thought everyone remembered!

Senator WATSON—Perhaps they do!

CHAIR—I have a couple of questions. Firstly, are you aware that the credit unions in Australia have made strong and passionate submissions to us about the lack of competitive advantage they will have against banks under the financial arrangements? In fact, they say they will go out of business. However, they cite the fact that they are filling the hole where banks are withdrawing from rural Australia and they are providing a financial mechanism there. Are you aware of Aussie Home Loans saying effectively the same—that their costs will be pushed up? That firm is saying the competitive advantage that they have will be reduced and that their ability to keep the banks honest and to provide cheap home loans will be reduced. Are you aware of those submissions?

Dr Crean—Yes, we are aware of them. We are aware of a range of other issues as well. We are aware of the general impact on the housing industry in Tasmania of the GST. Our housing industry is in depression and has been in depression for the past two years. This is just going to send it further down. There are those issues. There is the credit union issue that you have mentioned. There is also the issue of public housing funds, et cetera, that has been raised recently with the state ministers. There is a whole range of other issues that are of importance. We have not presented all of those. What we attempted to do was give a general overview and concentrate on the main issues.

CHAIR—You are aware of the modelling showing that tourism is affected adversely overall?

Dr Crean—Yes.

CHAIR—Are you aware that the education export industry, a nascent but important industry, is also adversely affected? Are you also aware that there is a terrible problem for Australian mining companies in that commodity prices are falling and are slated to remain low and to go lower in the medium to longer term and that an exchange rate appreciation will work

adversely to those interests? The same is essentially true of agricultural exports, which is a large export component from this state?

Mr Bacon—We are certainly aware of that. Thankfully, we have just reached an agreement with the new owner of Mount Lyell which will keep it operating. That was on the verge of closure. The other mines on the west coast were all in severe difficulties because of the low commodity prices. A further appreciation of the Australian dollar would put many of those operations in jeopardy.

CHAIR—Finally, about 18 months ago when the Australian dollar was trading at US77c and not the US62c that it is trading at now, and when the ship bounty was on the block to be chopped, the fast ferry manufacturers both here and in Western Australia were close to extinction, although not quite there; they were very much on the breadline. However, the depreciation in the exchange rate has given them that comfort zone in order to build a capacity of scale and win new markets which underpin your manufacturing capacity.

Dr Crean—The depreciation of the Australian dollar and the low dollar level, in terms of exports, has been highlighted over the last 12 months where half of the 20 per cent increase in one year in exports that we have had has been due to the depreciation of the Australian dollar. It certainly assists us, in terms of exports, if the dollar is down rather than up.

CHAIR—And you were right, and not Senator O’Chee, in the depiction of what the government’s package says about the appreciation of the Australian dollar.

Dr Crean—Yes, competitiveness.

CHAIR—Yes. Thank you. Are there any further questions?

Senator MURRAY—Dr Crean, the forestry industry and paper manufacture are important industries here. Are you aware that the newspaper editorials, by and large, have advocated that food be taxed but they want newspapers GST free? The media have very much under-reported this but I wonder—

Senator SHERRY—They gave me a serve in the *Age* on Wednesday!

Senator MURRAY—Would you like to comment on this apparent discrepancy between their views on compensation to low income people and the newspaper industry?

Dr Crean—I cannot speak for the newspapers but I guess in all of this there are people coming in and expressing how they benefit from it and others who do not. In the end, we are looking at the overall balance and, in terms of Tasmania, that overall balance is overwhelmingly down. That is the point of the presentation today.

CHAIR—Thank you. On behalf of the committee could I thank you, Mr Premier and Mr Crean, for gracing us with your presence here today.

Mr Bacon—Thank you very much.

[2.43 p.m.]

McLEAN, Professor Stuart Ramsay, Associate Professor in Pharmacology, University of Tasmania

HALES, Ms Elvie, Manager, Drug Education Network Inc., Duty of Care Alliance

LUBIANA, Mrs Monique Mary, Member, Drug Education Network Inc., Duty of Care Alliance

CHAIR—Welcome. Could I say that we are a little bit behind time and I apologise for that. I will try to make it up to you. The format we have been following is that we invite you to make a short presentation on your written submission, which we have in front of us, and then make yourself available for questions. Professor McLean, do I assume that it is you that I throw to, or is it some other member of your group who is the designated hitter on behalf of your organisation?

Prof. McLean—If it is not evident that it should go to one of the others then send it to me. I will make an opening statement and then introduce my colleagues who also have a few words to say.

CHAIR—Please begin with your opening statement.

Prof. McLean—Thank you very much for hearing our submission. A time when a change to the taxation system is being discussed is an opportunity to put taxation of alcoholic beverages on a more rational basis than is the case at present. The nub of our submission is that the major tax on all alcoholic beverages should be based on alcoholic content.

Our group comprises a drug educator, Elvie Hales, a wine maker, Monique Lubiana, and me as an academic pharmacologist. Our arguments are that a volume based tax on alcoholic beverages will bring benefits to the community in terms of health and safety and benefit the great majority of winemakers and the alcohol industry generally. I probably do not have to elaborate on the—

CHAIR—I think you are aware this has been canvassed fairly extensively.

Prof. McLean—I think one of the major advantages of having a volume based taxation is that it avoids the price promotion, which is happening now with cask wine, of beverages which are most frequently misused and, at present, which collect minimal revenue from the two-thirds of all wine sold which is in casks. Perhaps now, with the shortness of time, I will hand over to Elvie Hales from the Drug Education Network.

Ms Hales—I am here today in my capacity as manager of a statewide drug education organisation—a non-government organisation—in Tasmania. Our primary target group is young people and most of the programs that we run are in relation to young people or those that impact immediately upon them, that is, parents primarily and their older peers.

The consumption of alcohol by young people is the largest drug related cause of harm in the community. Alcohol, a drug as it is under the definition of the World Health Organisation, accounts for 80 per cent of all drug deaths in Australia among young people between 15 and 30 years of age. The fact that cask wine and full strength beer are so easily available and, especially cask wine, available in such volume at a cheap price, encourages those people that buy it to binge drink, especially young people. I am really talking about the harm in the community from alcohol abuse and what I would like to see is a lowering of the alcohol content especially of cask wine.

The interests of the wine industry, for instance, will be spoken about by Monique shortly but from our point of view as educators working in health promotion and prevention programs, the fact that cask wine is so readily available, extremely cheap to buy and has such a high alcohol content is of grave concern. The issues that have been listed in my presentation are here and I am happy to answer questions shortly about that. I will hand over to Monique Lubiana now from the wine industry.

Mrs Lubiana—Do you mind if I read directly from what I have written here? It makes it easier for me.

CHAIR—It is your call as to which way you want to present your evidence.

Mrs Lubiana—Thank you. Mr Chairman, I believe your committee must objectively and quite ruthlessly scrutinise the intellectual rationale and moral standpoint of the Winemakers Federation of Australia. I believe you will find they are hostile to duty of care obligations to society and indifferent to the long-term viability of small businesses in this industry, like my family's, and hence to wine tourism which is vital to Tasmania and very beneficial in many parts of Australia—particularly rural Australia.

Here are some points for your consideration. In answering a question from Senator Harradine when this inquiry committee was in Adelaide on 22 February the Winemakers Federation of Australia president, Mr Croser, said, 'Revenue neutrality is the principal plank of our policy.' As long as wine taxes are price based, meaning ad valorem, and whilst escalating cost and hard-won improvements in quality and value are penalised by incurring greater amounts of tax, any talk of revenue neutrality is a lot of rubbish.

In a speech to the National Press Club in Canberra last August, which was reprinted in the November issue of the *Wine Industry Journal*, Mr Croser said:

The number of litres of alcohol consumed domestically as wine has been stationary since 1984, hence generating a static revenue stream under a volumetric tax regime.

Mr Chairman, that is surely exactly what the wine industry needs: a stable overall tax take, CPI adjusted, to be the same value in 10 or 20 years time. However, Mr Croser continued:

On the other hand, the value of wine sales has increased since 1984 by more than 80%, giving Government an appropriate growth dividend.

Sir, what sort of bizarre logic praises a tax system that leads to endless increases and describes it as appropriate?

One minute 'revenue neutrality' is the central plank of WFA policy; the next moment there is praise for a system that achieves the opposite. Mr Chairman, there has been a lack of basic intellectual preparedness by the WFA in assessing the damaging implications of a wine equalisation tax calculated by the ad valorem method. When Senator Sherry questioned the Winemakers Federation with regard to total revenue derived from all taxation on wine, Mr Stephen Strachan of the WFA answered that 31.7 per cent would collect \$706 million, including the GST component 10 per cent, compared to the current 41 per cent wholesale sales tax revenue take of \$560 million. The WFA answer understated the real situation by over \$300 million.

In Perth on 25 February, the Independent Wineries Association president, Mr Bruce Tomlinson, set out the true total revenue implication of the combination of ad valorem GST and ad valorem WET. In GST years one, two and three, an ad valorem WET, as documented on page 100 of the ANTS manifesto, will produce on its own \$600 million, \$700 million and \$720 million.

In three years time, in GST year two, the year 2001-2002, the combination of a 10 per cent GST plus WFA's ad valorem WET will produce revenue in excess of \$1 billion: \$350 million from a 10 per cent GST plus \$700 million from the Winemakers Federation's ad valorem WET. Dr John Gladstones, who gave evidence in Perth on behalf of IWA, provided the GST calculation which has been verified in discussions with Treasury.

Incredibly, it would appear that it is not of sufficient concern to the WFA to carefully scrutinise the ANTS document to learn what is the real eventual impact of their ad valorem WET obsession. They believe ad valorem WET will add no more than 1.9 per cent, or 19c, to the price of a four-litre cask, so why get too deeply into the fine print of the ANTS document. Please do not ask me why the head of Petaluma wants ad valorem only taxation. You must ask Mr Croser what happened to the rationale he expressed with Professor John Freebairn in arguing that it was socially obligatory to target negative alcohol externalities in fashioning taxation on wine products.

Thanks to the WFA, the wine industry is probably stuck with the government's revenue expectations of \$700 million WET in GST year two, after the catch-up of lag between GST year one and year two. You will have to ask the government to explain 'lag' because I cannot. To be able to finally cap WET you must divide the GST year two, \$700 million, by the number of litres of alcohol consumed in wine in 2001-2002 which will be very close to 39 million litres; hence, IWA's wine externalities WET tax calculation of \$18 LAL, CPI adjusted. Here is a table that illustrates a lack of semblance of revenue neutrality since wine taxes were introduced, always under ad valorem methodology.

Mr Chairman, I ask you to do what the wine industry inquiry recommended in 1995 and that is to implement a holistic approach to wine taxation through an alcohol content tax. The stability and sustainability of the wine industry is dependent upon it. The diversity of wine styles, including low-alcohol wine, and a new generation of wine pioneers could be lost without a more equitable form of taxation.

I quickly just skip to my supplementary submission of one page. The word 'equalisation', as in the government's ANTS wine equalisation tax, WET, has nothing to do with being equal to the current 41 per cent wholesale sales tax. Five hundred and sixty million today is about a half of \$1 billion GST plus WET. If you look at page 88 of the ANTS manifesto, table 2.1 shows that the price for a medium-priced bottle of wine is to increase by about three per cent under GST plus WET, whilst taxes on the same bottle increase by 22 per cent.

Any so-called benefits to the bottled wine industry through GST are entirely siphoned away by the huge increase in tax through the ad valorem WET called for by the Winemakers Federation of Australia. Thanks to the WFA's endless public self-aggrandisement, who amongst you does not think this is the most successful booming industry in Australia?

The government has done again what it did to the \$6,000 grant we were supposed to get to help us acclimatise to the tax increases in the time of Treasurer Dawkins. It has taken away any possible GST benefits by imposing sleight-of-hand extra taxes. It would be impossible to so manipulate taxes if, over and above the 10 per cent GST applying on all other Australian goods and services, WET was what it should be, which is a wine externalities tax, calculated simply from a flat rate on each litre of the 35 million litres of alcohol consumed in Australia each year. A wine externalities tax does the specific job I am arguing for, whereas a tax on value does nothing for the public health, and greatly disadvantages small rural business, wine tourism and quality bottled wine producers of Tasmania.

Senator O'CHEE—Ms Hales, what are the prime determinants of choice when people choose to abuse alcohol? What are the prime determinants in their choosing the form of alcohol they are going to use?

Ms Hales—I would have to say that depends very much on the type of person or the group that the person belongs to when they are choosing what they will drink. Obviously, the choices will be determined by the cost. There are studies that show that, as income increases, what you are prepared to spend on alcohol also increases. Studies also show that, when alcohol is very cheap, people tend to consume more. In other words, as price increases but income stays relatively the same, people will consume less.

In my area of work with young people, cask wine is often the alcohol of choice for those two reasons. Young people generally do not have a lot of disposable income. They want to get drunk. For them, that is often the aim of drinking, unlike older people for whom it is perhaps not always the primary aim. With young people it often is. Cask wine presents that opportunity very easily at a very cheap cost.

We are proposing that, whatever happens with the tax situation—we are not experts in that area, so we will leave that to the experts—what we really want consideration for is the idea that there are incentives for the wine industry to produce cask wine that is low alcohol. Along with that, education programs will push the idea that drinking low alcohol drinks is far better and just as much fun as drinking high alcohol drinks. Then young people will have that added incentive. If it is there and readily available and affordable, and there is not a cheap high alcohol alternative, then young people and other people will move towards that. Of course, the wine industry also will promote those low alcohol drinks because there will be an incentive for them to increase their sales in that area.

Senator O'CHEE—I am genuinely confused at what appears to be a contradiction in the argument your group has made today. You are saying that price is a key determinant and within that the level of tax is a key determinant. Yet Mrs Lubiana is saying she does not want the level of tax and the price to go up. That seems to be a little internally inconsistent. I am offering you the opportunity to clarify your exact position.

Mrs Lubiana—For every 750ml served in a cask, they are paying something around 50c per 750ml serve. For my top of the range bottle of sparkling wine, I pay \$6.15 in tax for the same 750ml quantity, so large companies are able to cross-subsidise their products basically.

What we are saying is that we want a discount or an incentive and that you pay less tax if you reduce your alcohol. We are talking about the same amount of tax applying for every 750-millilitre serve of alcohol—do you understand that?—as opposed to the system now.

Senator O'CHEE—Yes, I understand that. But a large chunk of what you submitted to us today was that you believed that the total take of tax should remain exactly the same over a period of 10 years—

Mrs Lubiana—That is right.

Senator O'CHEE—with only a change in CPI.

Mrs Lubiana—Because we are subsidising the huge producers. That is why.

Senator O'CHEE—Yes, but that does not seem to be consistent with what Ms Hales said about price being a key determinant and therefore wanting to reduce the level of consumption.

Prof. McLean—Could I perhaps try and answer?

Senator O'CHEE—Please.

Prof. McLean—We are looking at a shift within the total alcoholic beverage tax scheme so that cask wine would pay more tax. That would make that relatively more expensive and reduce the consumption of cask wine which is a major problem.

Senator O'CHEE—So what we are talking about, then, is that you want to raise the level of tax.

Mrs Lubiana—On some products.

Senator O'CHEE—Overall?

Mrs Lubiana—No, because we are overtaxed as an industry already. That is my true belief.

Prof. McLean—Bottled wine would become a little cheaper and cask wine would become more expensive. What we are arguing for is that most of the tax raised on alcoholic beverages should be based on the alcohol content. That would automatically mean that, per litre, cask wine would be taxed as much as bottled wine on the excise, so the cost of cask wine would come up significantly. There is a public health benefit in that and there is an equity benefit as well.

Senator O'CHEE—It is just that I know a lot of people who abuse alcohol from bottles as well as casks.

Prof. McLean—Yes.

Senator O'CHEE—That does not deal with that problem.

Prof. McLean—No. Well, we cannot—if people can afford to do that, there is not too much we can do about that. But there is a large part of alcohol abuse which is associated with cheaper beverages, and cask wine is the same price as soft drink.

Mrs Lubiana—The GST component does take account of that. You are contributing more tax the more expensive the product is, so a flat rate across the board is what we are arguing for—for example, let us say a dollar for every 750 millilitres. At the moment they are paying 50c for their 750 millilitres and I am paying \$6.15 for my 750 millilitres. Say it is a dollar across the board for every 750-millilitre serve of wine. The \$10 cask is going to attract a lot less GST than I am because they have got a \$10 four-litre cask that attracts \$1 and my \$30 bottle of wine is going to attract \$3 plus the flat rate of alcohol tax. That is the difference.

Senator O'CHEE—A final question. I can see where you are coming from. There are a lot of people, though, who like buying cask wine who will feel outraged. They will say, 'This is just an attack on the poor to the advantage of the rich because the rich drink bottled wine and the poor can only drink cask wine.' We get treated to this every day in the Senate from the opposition.

Mrs Lubiana—The tax rate of cask wine will not increase if they decrease the alcohol content down to 6.5. There will actually be no increase in the price of cask wine, the tax that they currently pay, providing they lower the alcohol to 6.5.

Prof. McLean—Which is technically possible.

Mrs Lubiana—You still get the taste of wine, there is still alcohol in that wine, but the huge producers get an incentive to reduce the alcohol content and not pay any more tax, so the price will not rise.

Ms Hales—Can I just add something to that too? Obviously we would like to see strategies put in place that stop alcohol abuse all the time, for whatever group it is and however much money they have got to spend on it. That is not possible in the short term. It takes a long, long time to get a shift in attitude and a lot more money than just tinkering around the edges of

the alcohol content or the taxation amount that the industry pays. If you think, for instance, of the drink-driving campaign, the reason people now take more care about what they are going to drink when they are then going to drive is partly in response to some education programs, but mostly because of the shift in attitude that the big media campaigns made.

We have not had that commitment of finance to education programs yet about the health consequences of alcohol abuse. We have the message about drink-driving; even young people have that message fairly strongly, but we still have not made that connection about the health effects of overusing alcohol and the social consequences of overusing alcohol.

We spend in Australia \$4½ billion every year on alcohol related harms. That is not including crime and violence. That is just the health effects, health consequences, car accidents, misadventure and that sort of thing. It seems to me logical that, whatever we can do to limit the amount of alcohol content in drinks, we should go for. Where groups in the community have access to high alcohol content, high volume at a very cheap price—and it is also inequitable to the industry—we really should look at tackling that, not just for supporting the industry base, but as a social justice issue, in my view.

Senator HARRADINE—Much as I would like to keep Senator Murray and Senator Cook in Tasmania over the weekend and not back in Perth, I think I would be rather unpopular if we tried that. We were given some of this information also yesterday afternoon in Melbourne from the Drug and Alcohol Council.

Senator SHERRY—It is true, is it not, that a lot of the wine that is going into casks is imported product?

Mrs Lubiana—That is right—20 million litres imported into the country.

Senator SHERRY—As I understand, that is increasing?

Mrs Lubiana—That is right for cask wine. It is mainly red wine from Chile, which we are subsidising now. The expensive bottle end of the market is subsidising foreign countries as well as the large three producers.

Senator SHERRY—Ms Hales, we had a discussion with the tobacco industry and with some justification they argued that there is a level of taxation at which consumption starts to decline. Obviously, that in itself is a good thing and I wish I could be converted. There was also a discussion about people switching from one form of legal drug to another. I think there is something in the argument that you switch—at least some people shift—from legal tobacco to illegal marijuana. Let us assume we increase taxes on alcohol in the way you are suggesting—and I have some sympathy for your argument on health grounds. Wouldn't people shift from alcohol, at some stage if you lifted the tax rates too high, into other forms of drugs, be they legal or illegal? Is there any evidence in your experience about that?

Ms Hales—It has not been tested really because alcohol is so freely available. It would be difficult to say whether people would necessarily move from alcohol use to cannabis use.

Senator SHERRY—I was not suggesting that, but it may have that effect.

Ms Hales—It is the drug that is next used the most after alcohol. I am not sure about that. The effects of the two drugs are quite different. The availability is probably about the same in Tasmania. Alcohol is much cheaper, unless you are growing your own cannabis, I guess. No, I would not be able to comment on that.

There is a danger, I suppose, that if it is more difficult to get one drug and it is easier to get a different drug, then you might go for that different drug. The fact is that we already have a third of our young people trying cannabis anyway. Something like 25 per cent use it on a

regular basis in Tasmania and that is mirrored around the country. However, 80 per cent of our young people, and I am talking between the ages of, say, 14 to maybe 18, use alcohol on a regular basis. It is socially acceptable, it is much easier to get hold of and it is a legal substance. There is a much higher social acceptance of using alcohol. All we are suggesting is that we make it slightly harder to get some types of alcohol and that we use some kind of inducement to encourage the industry to lower the level of alcohol in the bulk wine that people can buy.

Prof. McLean—The other thing is that cask wine is not really paying its way.

Ms Hales—That is true.

Prof. McLean—If you do an accounting of the social harmful consequences which you would attribute to cask wine, the tax being raised on it really is not paying for that.

Senator MURRAY—I summarise what you have been saying as follows: there are no standard principles on the taxation of alcohol at present and therefore the system is not fair and special pleading has delivered particular benefits to a sector of the industry. Secondly, you are saying that, if you apply good common principles across, you get the side effect of a benefit in terms of adjusting social behaviour and making alcohol abuse a little less attractive for some members of the community, drinking some kinds of alcohol. That is essentially what you have said.

Mrs Lubiana—Yes.

Senator MURRAY—Mrs Lubiana primarily addressed it from the industry viewpoint with that perspective. You, Ms Hales, have addressed it from the welfare side.

Ms Hales—Yes, absolutely.

Senator MURRAY—That is the summary of it?

Mrs Lubiana—Yes, that is right.

Ms Hales—Can I just say too that the overall cost under these proposals of a cask of wine would not necessarily go up that much. It would still be quite affordable for people on low incomes and that is something that Senator O'Chee might be interested to note. However, the alcohol content will be lowered. There will be an incentive for the big wine manufacturers to promote the use of low alcohol bulk wine because they will get benefits from producing it.

Senator SHERRY—I asked Mr Croser about this issue. I do not want to paraphrase him unfairly but he had a very glowing account: people drink wine with food. It is on the transcript. That may be his experience. What you are saying is that there is definitely a group of people in society who misuse cheap, bulk wine.

Ms Hales—Absolutely. Young people are particularly at risk from that.

CHAIR—Thank you very much for aiding our inquiry in the manner that you have this afternoon. I am sorry that you were the last in the program but I am sure your views have been taken on board by the committee. Thank you very much.

Committee adjourned at 3.13 p.m.

