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SENATE

SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES

Reference: Prudential supervision, global financial services and superannuation guarantee charge

FRIDAY, 14 JULY 2000

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SENATE

SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES

Friday, 14 July 2000

Members: Senator Watson *(Chair)*, Senator Sherry *(Deputy Chair)*, Senators Allison, Chapman, Conroy, Hogg and Lightfoot

Senators in attendance: Senators Allison, Conroy, Hogg and Watson

Terms of reference for the inquiry:

For inquiry into and report on:

(a) prudential supervision and consumer protection for superannuation, banking and financial services;

(b) the opportunities and constraints for Australia to become a centre for the provision of global financial services; and

(c) enforcement of the Superannuation Guarantee Charge.

WITNESSES

Committee met at 8.54 a.m.

DRYSDALE, Professor Peter David, Head, Australia-Japan Research Centre and Acting Director, Asia Pacific School of Economics and Management, Australian National University

MILNER, Professor Anthony Crothers, Dean, Faculty of Asian Studies, Australian National University

CHAIR—I declare open this public hearing of the Senate Select Committee on Superannuation and Financial Services. This is the sixth public hearing on the committee's main terms of reference. The aim of today's hearing is to take evidence principally in relation to paragraph (b) of the terms of reference—the opportunities and constraints for Australia to become a centre for the provision of global financial services—from some key organisations and interested parties.

All of the witnesses who appear before the committee are protected by parliamentary privilege with respect to the evidence given before the committee. This means that they are given broad protection from action arising from what they say and that the Senate has the power to protect them from any act which disadvantages them on account of evidence given before the committee. The committee prefers to conduct its hearings in public. However, if there are any matters which you wish to discuss with the committee in private, the committee will consider your request.

I welcome Professor Anthony Milner and Professor Peter Drysdale. I invite you to make an opening statement.

Prof. Milner—Professor Drysdale and I will be suggesting some ways in which Asian studies is a resource that will assist Australia to become a significant financial centre. In terms of background, the reorientation of Australia towards Asia, of course, is not a recent development. It has its origins in the 1930s and is a largely bipartisan commitment. If we look at trade flows, tourism, immigration, educational exchange and military cooperation, there is no doubt that this Australian national policy of reorientation towards Asia has had real success.

To take just the example of education, some 70 per cent of international students in Australia come from Asia and the number of international students, I understand, has increased from about 5,000 in 1988 to 90,000 in 1999. With respect to Asian studies itself, before World War II there was a little teaching of Japanese and Chinese in some universities in Australia, but the first comprehensive centre of Asian studies was established at the ANU about 50 years ago. Other centres developed later at Sydney, Melbourne, Monash and elsewhere. There was much expansion in Asian studies in the 1980s and 1990s and, in this period, new ambitious targets were set. For example, the federal government's Asian Studies Council in the mid 1980s declared its intention that, by the year 2000, 25 per cent of primary and secondary students should be studying Asian languages.

In fact, although it is difficult to get exact figures, it seems certain that no more than one-third of this figure has been achieved. Why have we not done better? In part, the planners simply underestimated what a hard and expensive task it is to acquire an Asian language and to become educated in Asian cultures. It is also true that the Asian economic crisis took some of the glitter away from Asian studies as a career option. But in addition, especially at a time when the government is positioning Australia to take advantage of the economic recovery of the region and when we are also reviewing our defence priorities, it might be argued that the federal government needs to reiterate its commitment to an Asia first policy and to the task of making certain that the Australian community is committed to acquiring a sufficiently sophisticated knowledge of Australia’s regional context.

There is then no reason to become complacent about the Asian studies resources in this country. But, having said this, I will end by making three points about Asian studies in our universities. First, we are producing a small elite of well-trained Asian specialists. By ‘small’, I mean thousands rather than tens of thousands. At the ANU, which places exceptional emphasis on a sound language training, there are currently about 250 students studying Japanese, 140 studying Indonesian, 120 studying Chinese, 50 studying Korean, 50 studying Thai, and 20 studying Vietnamese.

About 10 per cent of these do a Year in Asia program where they are attached to an Asian university. These Year in Asia students are a real elite and they are prominent among those who have had successful careers in the Department of Foreign Affairs and Trade, Defence, Immigration and in a range of industry and NGO positions. Many of these students of Asian languages and Asian societies, I should add, do joint degrees with law or economics and commerce. Also at the ANU there is a growing emphasis on vocational training in Asian studies. We have been developing in-country work experience programs and, this year, teach a very practical course called Engaging with Asia: Working for Government.

The second point that I would make about Asian studies is that our research achievements are formidable by international standards. I think it is true to say that at the ANU we possess the largest concentration of Asian specialists in any single university in the world—and Professor Drysdale will speak in particular about research in economics.

The third point is that Australia is exceptional in regional terms in having at the ANU, at Griffith, Sydney, Monash and Melbourne, Asian study centres with broad Asian interests. For example—and this point really needs stressing—it is extremely rare in Asia, outside Japan, to find Asian study centres that teach not one or two but a wide range of Asian languages.

In conclusion, one indication of the extent to which Asian studies is being recognised internationally as a particular Australian resource is the fact that a number of European countries currently arrange for their diplomats who are destined for Asian posts to spend a period at the ANU working with our Asia specialists before they proceed to take up their appointments in the Asian country itself. Professor Drysdale is now going to explain why, in similar fashion, the Asia expertise in this country can provide Australia with a resource that will assist us to become a significant financial centre.

CHAIR—Would you prefer to take questions now in relation to your comments?

Prof. Milner—Sure, if you like.

CHAIR—You mentioned that the government needs a recommitment to Asia. Perhaps you could tease out that issue and give some more detail of how you believe that could be achieved. It cannot be achieved, I do not believe, just by speeches. There has to be some resourcing; there has to be some program, I presume.

Prof. Milner—It can be achieved partly by speeches. I think that the government has an Asia first policy that has been reiterated, but I think in recent times, particularly with the Asian economic crisis and with some of the aftermath of Timor, there is a certain negativism in the Australian community regarding the Asian region. I suspect that it would be necessary for the government to remind Australians of the importance of acquiring a sophisticated knowledge of that region. I think that that would help in encouraging more Australians to do Asian languages in schools and furthermore help students to become more willing to do the extensive work that is involved in acquiring, in a comprehensive way, an Asian language at university. So we need a push from the top.

I can see that perhaps the last government's rhetoric about our commitment to Asia had a negative impact in some ways in the community. I think that perhaps it was too strong. At times there was a confusion between the Asianisation of Australia and the sophisticated engagement with Asia. In my view, this government is right to emphasise the latter rather than the former, but we need a lot more emphasis on that. It seems to me that we could do with a Prime Ministerial statement on this and not merely the foreign minister's statement of a firm commitment to the Asian region and a call on Australians to commit themselves to that sort of venture. It seems to me to be a huge issue for Australia as to how it relates to its region - an issue of international and not merely regional significance.

But it is not, of course, just a question of speeches; I think we need more funds to get Australians, even the relatively small elite that I am talking about, studying in Asian universities. This is expensive for the students. It is enormously important for our future that we have this sort of training and I think people should be encouraged to undertake it. So I think there does need to be more funding in this area. It is extremely difficult for universities to maintain staffing and libraries at present in the area of Asian studies—again, they are expensive things. Programs in the teaching of Asian languages are a lot more expensive than programs simply in the teaching of non-language courses. I think there needs to be some recognition of the demanding task there. So it is partly a question of rhetorical statements but partly a question of funding—earmarking funding for Asian studies. We need to recognise that all those hopes of the mid-eighties have not been fulfilled to the extent to which we said they would. We have had some success, but it is quite limited compared with what was promised in the mid-eighties.

CHAIR—Have you noticed a recent turnaround given the optimism shown by not only Australian but global financial fund managers in investing in a number of Asian countries which are emerging rather remarkably from the crisis of a few years ago?

Prof. Milner—Have I noticed a turnaround in—

CHAIR—A turnaround in the downturn in interest? You said you thought the downturn in interest was due to the problems of the economic recession in Asia. I put to you now that there is a turnaround in some of these countries, especially as shown by the increased recognition by financial fund managers both here in Australia and globally that parts of Asia are now good places in which to invest.

Prof. Milner—I will turn for this to Peter Drysdale, who is an economist. But I would make the point that in the period when there was so much discussion about the ‘Asian miracle’ there was considerable shine to Asian studies, of course. It was not just a question of knowing about the region to trade there but possibly learning more and more about the societies and economies to see what secrets they might give Australia for a more economically successful Australia. At a time when we began to talk about us being a strongman of Asia, which we did two or three years ago, naturally there was something less attractive about studying the Asian economies and Asian societies. I am convinced that there is a considerable turnaround going on now and those economies are on the rise again, but I say that from a lay point of view. May I ask Professor Drysdale to respond specifically to that?

CHAIR—Senator Hogg, do you have any particular questions in relation to matters specifically raised by Professor Milner?

Senator HOGG—Nothing that I cannot raise later on.

Prof. Drysdale—It is a pleasure to appear before this committee. It is a sort of unexpected pleasure—like Senator Conroy's unexpected pleasure—in being here. I was invited by Professor Milner the day before yesterday to join him in these submissions and I was very delighted to do so because I think that the work of this committee is extremely important.

The development of financial relations within the region and Australia’s participation through business and policy in the development of financial integration in East Asia and the Pacific over the next 20 or 30 years is going to be the leading edge of our engagement with the region, and focus on these issues at this time is very important for Australian policy development. So I commend the committee’s inquiry and indeed the commitment by the government—and I know it is a bipartisan commitment—to take the initiatives that have been taken in the establishment of the Australian Centre for Global Finance and AXISS Australia, since these initiatives have the potential for adding to private interests in the development of financial sector relations between Australia and the region.

One of the issues I am going to touch upon in a moment is how concentrated those interests are in the region compared with other parts of the world. The evidence that we have been asked to address relates to the particular capacities Australia might have in the region to service those interests. I will address those issues from the perspective of the educational dimension. I know that my colleague Professor Gordon de Brouwer spoke with your committee in Sydney a few weeks ago about the financial market interests, and I will touch upon them, too, but only in the context of talking about the human resource capacities we have to relate financial market developments in the region.

As you know, Australia has become one of the world’s most efficient suppliers of financial services, but the truth is that that is not yet fully reflected in the relevant financial corporations’ competitiveness in the international marketplace in the provision of financial services from an Australian base. So the development of Australia as a centre for the provision of financial services internationally and particularly to the regional market, in my view, is a very important national objective. As I said before, it relates to the leading edge of our interests in developments in the regional economy over the next few decades or so.

In one sense what is going to happen in financial markets in the region is rather like what happened to our engagement through trade in the region 30 or 40 years ago, in the last decades of the 20th century. In terms of policy development, those developments encouraged us to be active in the elaboration of regional institutional arrangements, such as APEC and so on. In the future, in the next decade or two we will want to be equally active in the development of institutional arrangements to support our interests in the development of financial markets in the region.

Australia’s efficiency in the provision of financial market services arises from a number of factors. One important factor is the advantage of what we call first-movers in financial deregulation. Australia is a relatively small financial market but significant for its size internationally, compared with the major markets in London and New York, for example. We have a range of financial product suppliers who are efficient by international standards and who clearly have products that are at the leading edge of the provision of financial services by international standards. They compare in their efficiency extremely favourably with the providers of such services in other financial markets in the region, for example in Japan which, because of late movement on financial deregulation, has had a very uncompetitive financial sector and a very inefficient financial sector. That is changing rapidly. In the normal course of events, one would hope and expect, for example, that suppliers of financial services in Australia who have advantages to deliver can relate to those changes taking place in the Japanese and other East Asian financial markets in a way which delivers profit from investment and, of course, export income through service trade to Australia.

What I have talked about so far is really the potential competitiveness of our financial services sector. That rests on the low costs we have; it rests on the openness we have developed; it rests on international competitiveness in the market developed through openness; it rests on the skills base—the depth of the skills base that we have in the financial sector itself. It also rests on the language base we have. English is important in communication in international financial markets and the technological infrastructure we have. In respect of our position in the region, it rests on the location we have and the time zone advantage we have in international financial markets and in regional financial markets in particular. What I am really saying is that the government’s initiative and the support it has been given rightly address the fuller realisation of that potential in the delivery of financial services from the Australian base in particular.

That leads me to say one or two words about whether it is global competitiveness or regional competitiveness that matters. What I have said is that we are globally competitive. Even though we are small, we can mix it with the biggest and best of them internationally in terms of the development of financial products and in terms of the supply to the marketplace in Australia and internationally. We are potentially globally competitive. We rightly seek and have been successful in that from financial corporations here with links to markets that are amongst the most advanced and competitive markets in the world. For example, our major financial institutions have made successful plays in the UK and North America. However, it is interesting to observe that the older and larger institutions in Australia have not developed successful plays on such a scale or to such a depth in the region. From what I have said, one would imagine that they would have deeper competitiveness there because of location, time zone, other skills base and advantages of that kind, and there are real reasons for that.

The resources which Professor Milner referred to that we have developed over the years in respect of what I might broadly call Asian literacy and understanding—it is not only language but also on-the-ground experience, familiarity and so on—among a younger generation of professional Australians in not only government but business have been thus far deployed and earn service income in the region more for foreign financial business than for Australian financial business. This is not a bad thing. Of course, the experience generated by the people out there who come through our system and operate in the market in foreign institutions is important experience which potentially will bring to bear on the development of the financial market base and competitiveness in Australia.

However, there are important reasons why the older, larger and stronger Australian institutions have not been directed and motivated towards the development of a stronger competitive position and financial market links in the region. Indeed, in recent times some of them tended to retreat from it, as we know from the divestment of an important part of one of our major financial institutions in its regional base. Others have acquired assets which will lead them to have a stronger and sharper focus on the markets in the region. There are a number of reasons for this. Let me identify one or two of them.

First of all, in our older financial institutions, I think the nicest way of putting it—and I am an old chap myself—is to say that the demography of management in these older and larger institutions limits comprehension and confidence in capitalising on the opportunities that there are in Asian markets for Australian institutions which are in themselves so strong and which need to relate to institutions in those markets if they are going to deliver service and product out of this country.

That is evidenced in the concentration of their investments and their links in the United Kingdom and the United States rather than in their development of links, or lack thereof, in the Asian markets. It is understandable, but in my view it is desirably only a temporary or transitionary phase in the development of our global and regional competitiveness in financial markets. It is desirable that the focus of the centre and AXISS Australia be on providing resources which will help to facilitate the links between our major financial institutions and the newer ones which are more active in these markets. I include among the newer ones institutions in the banking field like Macquarie Bank, which has recently developed a significant venture in cooperation with Nomura in Japan, and newer providers of personal financial services which are working hard to develop links with other major institutions in East Asian markets.

There is an important role for government to play in assisting these developments at the pointy end of the market, as it were, in respect of the professional capacities and the links in training that we might have in developing professional capacities that tie Australian operators with operators in the region, but also more generally in supporting policy development which reduces some of the barriers to effective operation in the region. There are institutional barriers and legal barriers to operation in the region that still remain. The newer players have strong potential strength in the region despite some barriers to entry. Why? Because so many of the newer players more readily encompass and incorporate people from a generation which is literate in Asia through its experience in Asia, its language training and its more general training in the profession and the region.

Let me give you one example. I have four PhD graduates working in this market in Japan. These are highly skilled people who are literate in Japanese and literate in financial markets who are working in the financial market in Tokyo. None of them are working for Australian institutions. There is no reason why they should not be in the future. This is a story that is repeated many times over not only in Japan but in Singapore, Hong Kong and so on. There is a big Australian presence out there in the market. That presence is not presently linked significantly back to building the competitiveness of Australian institutions from an Australian base. It can be and will be built most rapidly by the newer institutions in Australia because they are full of younger generation people with the sorts of links to the region which facilitate the development of their competitiveness in the region.

Let me conclude by saying one or two things about the research and education base in Australia. To complement what Professor Milner has already said, we do have high level capacities here. Again, in absolute size, the resources we have may not be as big as those in the United States or those in other parts of the world. However, they are certainly much bigger in scale than those in Europe. In terms of relative size and importance, they are very big. They add significantly to the base of human skills that will allow us to be a significant player in the region. Professor Milner already mentioned the research base and the advanced training capacities there are. Those training capacities are now being actively linked through new technologies developing capacities in the region which relate to capacities in Australia and capacities in not only South-East Asia but also China and Japan. All of that will contribute to Australia's competitiveness in this area. It deserves support. It deserves seed money. It will pay for its way in the future and will produce a significantly big return for Australia directly for not only financial players but also education providers who are engaged in these activities.

There is nothing to rank alongside the research capacities, training capacities and the close links we have in the base of research and training being done at the ANU, which is undoubtedly and unquestionably the largest single concentration of specialists working on East Asian economies at any institution in the world, including the biggest and best in the United States with whom I have close associations at Columbia, Stanford, Harvard or wherever. So that is a big resource. Relating that resource effectively to competitiveness of financial institutions is a challenge and interest for Australian government and for players on both sides of the fence—in other words, the financial sector side and the educational side—so that both can capture the strengths we have for building the bridgehead of financial market competitiveness in the region. Economically and politically, Australia's position in the region in no way frustrates the potential achievement of these objectives. Indeed, it enhances it. We have our problems in the region, and they can be addressed on another occasion. But by and large we have a reputation for efficiency and quality in this area and we have a position in terms of policy developments in the region which will facilitate the development of our financial market competitiveness. We command respect and interest.

I think, in brief, Australia is well placed to take further advantage of what has been achieved in terms of financial market deregulation and development and in particular to strengthen our competitiveness in the delivery of financial market services in the East Asian and Pacific region, building on the human resource base—the skills base that we have—especially that component in it which makes us able to relate more readily to this part of the world financial market than people from most other parts of the world.

CHAIR—Thank you, Professor Drysdale. Your kind comments about the committee's work are very much appreciated. I can assure you the *Hansard* record of witnesses' contributions is widely read, so your comments—both yours and Professor Milner's—will be noted by some of Australia's leading business people, public servants, government advisers and academics.

Professor Drysdale, towards the latter part of your presentation you mentioned that some of your most highly qualified people are currently in Japan but they are not working for Australian institutions. I presume they are working for some of the global financial institutions. Would it be possible that some of those global institutions might have representation here in Australia—for example, Credit Suisse, Merrill Lynch and these sorts of people? So while they are not directly employed by an Australian institution, they may possibly have a link back through the firm's global associations.

Prof. Drysdale—Not in all cases, but that is certainly the case in the majority of cases, I would say, since financial markets of their nature are global and all the major players from outside East Asia have operations not only inside East Asia but also almost universally inside Australia. Those operations relate to each other in some cases significantly. One of the interests, of course, in the provision of financial market services from an Australian base is to develop our capacity from this base to provide more back-room services to major institutions in the region—including Japanese institutions, I might say. We have a particular advantage, not only because of our educational focus in Australia on the Asian area but also because of our multicultural society, particularly in Sydney, I think, covering all the language streams, to develop the provision of those services to the East Asian market on a scale and from a competitive base that should see significant enhancement of our share in those markets.

Senator HOGG—In terms of this inquiry, we are looking at Australia becoming a centre for global financial services. How much has that been frustrated by the Internet and the e-commerce area? Whilst we might see ourselves as being a physical centre now, with the advance of Internet facilities and so on, where global financial services are placed is really quite irrelevant. Really, they could well be anywhere throughout the world and we may well be embarking on something that we might not be able to achieve.

Prof. Drysdale—I think there is no question that the technological developments to which you draw attention will change the provision of not only financial services but also many other services in the international marketplace. But location is still important.

Senator HOGG—Can you explain to us why it is important?

Prof. Drysdale—Let me explain a bit why location is still important. Operation in particular time zones is still important in these markets. Ultimately, services are provided, as the Japanese say, belly to belly—person to person—at the end of an e-commerce trade. Even many financial services have to be provided 'belly to belly'. So location is important in that context, too, across a range of services.

What you say about the impact of technology on the market, of course, is important in the sense that it is going to fundamentally change the structure of these markets over the next decade or more. Your comment emphasises to me the significance of interdependence in policies supporting the development of competitiveness out of an Australian base. Let me make clear what I mean in a more concrete way. Even telecommunications policy in Australia will have a big impact on whether we get it up in the financial sector internationally, since telecommunications policy can delay significantly the development of our position in the communications market in the region. If we have a telecommunications policy, frankly, such as the one we have been positioning to develop at the moment, then that will have an impact adversely on how we are perceived as an operator—a player—in the financial sector, as well as in other sectors. So there is an interdependence between these things.

To come back to the main point you raised, the brief answer to your question is: yes, there will be an opportunity to operate in markets because of these new technologies which are not significantly influenced by location but, no, location remains important in the delivery of financial services, especially to markets within the same time zone—markets that you have to relate to closely.

It should be understood that financial markets are not only markets for exchanging money. Money and capital and finance are exchanged in a social and political context which you have to be closely familiar with in order to make the right bet in the financial market. What I am saying—I think what we have both been saying—is that Australia is well positioned in this part of the world to be an informed player in those markets. It is particularly well positioned vis-a-vis these markets because we have these first-mover advantages. So we are likely for some time to come—maybe for a very long time to come—to present a good base for the development of the financial marketplace, which will be ahead of the game so far as the Japanese financial market even is concerned.

Prof. Milner—As a footnote to that, Singapore is keen to become a financial centre. I cannot help thinking it is significant that right now the Singapore University is putting enormously ambitious plans together to create the first really extensive, wide-ranging Asian studies centre in South-East Asia and to locate it in Singapore. I think their ambitious plans for Asian studies there are very much linked with their desire to be a regional and indeed an international centre.

CHAIR—It would have some catching up to do, wouldn't it, in terms of what the ANU is currently offering?

Prof. Milner—I am aware that we have both given you a sort of an up-beat account of Asian studies in Australia. I think it is really important to emphasise that we have that international reputation. I have been recently in the United States and various places in South-East Asia. People know of that reputation and they want to get our people. We have, relatively speaking, low salaries now in academia in Australia, low morale in our universities and low research resources—library resources—and we run the risk of losing quite quickly Asian studies resources that have taken decades to develop. In Singapore I was told, 'We will get this person or that person from your university. Money is no object for us. We have been told by the government we are going to be very well funded indeed and we are to create a great Asian studies centre.'

CHAIR—Sorry, Senator Hogg, I interrupted one of your questions.

Senator HOGG—I wanted to ask a question in the light of a statement made by Professor Drysdale that new players have strong potential in spite of barriers. I would understand you are referring there to non-tariff barriers that would exist both in the region and worldwide. How important for Australia being able to achieve being a global financial services centre is it to remove these non-tariff barriers and what fora should we use to try to achieve the removal of those barriers as complementing the other elements of our drive to being that global financial services centre?

Prof. Drysdale—That is a good question, Senator. I was referring, as you suggested, to barriers to entry in other markets, barriers that derive from the nature of regulatory systems in other markets. Services are not normally going to attract tariffs; it is regulatory systems that limit access to other markets. I was also, incidentally, referring to barriers that exist to entry to these markets in Australia. There are still barriers—legal problems and institutional barriers—that inhibit the entry of new players to important new markets, the hedge fund business in particular, but that is another story.

In respect of how we should approach the opening of regulatory systems in a way that allows easier participation from Australian and other players in markets which are presently heavily regulated, of course this is a huge and complex business which is deeply related to the development of financial and other policies in those markets themselves. Take the case of China. Really, it is a fundamental issue in Chinese reform, the management of Chinese reform and the complexity of managing Chinese reform—the opening up of Chinese financial markets, especially the reform of state-owned enterprises, both non-financial and financial state-owned enterprises in China. Our relationship to that process comes via processes both direct and indirect.

I think the most important forum still for us to pursue these interests and objectives in respect of the access by our financial institutions to these markets is APEC. Why is that so? APEC sometimes is seen to be ineffective as an agent, in itself, for market liberalisation in the region, but it has a number of tremendous advantages, particularly in this area. This relates to the agenda, the so-called market strengthening in APEC, that was developed through the Auckland summit and ministerial meetings of APEC last year. Market strengthening is code word for market reform and development; exchange of ideas, policy, approaches, strategies, training programs; and exchange of people that will assist the member countries of APEC to manage the opening of their financial systems and benefit from the gains that that delivers to themselves and to outside players as well as inside players in those markets. There is a big agenda there that I think we are beginning to relate to. I think the capacities that have been put in place through the establishment of the centre and AXISS Australia need to relate to that, need to relate to the major players in those activities.

In looking ahead through Brunei and especially APEC 2001 in Shanghai, that will focus significantly upon financial market opening and financial market training, I think that if the Chinese have their way in the development of the agenda for APEC 2001 there we have important opportunities at the academic level, the government level and the business level to influence outcomes over time.

Now, as you know, there are other ways in which we can influence the evolution of policies in our partner economies in the region as those policies affect financial market access. Japan has had its so-called big bang reform and that is now having a big impact on rationalisation and restructuring in Japan. It will take some time to settle down, but it is under way. In South-East Asia we have the initiative which is looking at the development of association between AFTA and CER as a broader subregional economic arrangement.

I would have thought that one of the most profitable areas for cooperation between AFTA and CER was in the area of developing closer links on the capital market side, including financial market regulation with the important players in the region, the stock markets, some of which are quite underdeveloped and will need support and assistance and will want to establish links with the Australian market which is, though we are a relatively small economy, quite a big market in terms of turnover in the international marketplace. All these ways offer opportunities for encouraging the opening up of financial markets in the region to our advantage. So these are some of the ideas that I think are important for us to pursue.

CHAIR—Professor Drysdale, Professor Milner, I would like to introduce Senator Lyn Allison from the Australian Democrats. Lyn, I do not think you have any questions, do you?

Senator ALLISON—No, I do not. It is a fleeting visit, I am sorry. I have to attend another committee meeting which is about to start in two minutes, so I am only here for a short time.

CHAIR—The final question is: are there any major constraints which may be preventing Australia's achievement of this goal of becoming a global financial service centre? You have emphasised very much today the opportunities. What are the constraints that the committee should be trying to address? You have touched on some of them, but I would like you to focus in on them.

Prof. Milner—I certainly touched on one a moment ago which I think is—

CHAIR—Yes, I noted that.

Prof. Milner—The pressure on our universities at the moment is no longer a light matter. I think it is becoming quite serious.

CHAIR—We are sending your comment to the ministers for education and trade.

Prof. Milner—I welcome the opportunity, too, to be here today, but I think in this context it is worth underlining that point. Having just got back from an overseas trip, I know for certain that we are under new pressure now and it is going to be harder and harder to keep these resources. You are asking us what resources we have. We are saying we have very good ones with great potential, but we could lose those quite quickly. It takes a long time to build up Asian studies centres, programs of the sort Professor Drysdale and I are involved in. It has taken 50 years and we could lose them very quickly.

Prof. Drysdale—I have already mentioned some of the constraints, Senator Watson, but may I just summarise them briefly. There are still legal problems in the development of the relationship between domestic and offshore trade in these markets which will need attention. I know the minister—

CHAIR—They are with the less technologically developed countries like Vietnam, are they not? Or do they exist with—

Prof. Drysdale—No, they exist with the start-up of business and the development of business within Australia. I know the minister is very focused on these issues and I am sure that there will be significant progress there. But for the moment they do represent constraints on our play in the regional market but more broadly in the global market. I think what I said before about how the different institutions in Australia position themselves in the market underlines the continuation of the constraint of knowledge and association. That really comes back to the importance of broader education in the region and the transmission of the results of that education, research and training to players that really can deliver good financial products internationally. I think that educational component is a very important component that the public sector can add to the delivery of competitiveness for our financial sector in the regional and international market.

I underline the point that Professor Milner has made already in that respect. I think this comes back to the rather optimistic point I made about Australia's position in the region. It is also important to observe that there has been a bit of confusion in the development of Australia's policy response to the difficulties that arose through the East Asian crisis and the difficulties that have arisen in the management of new thinking in East Asia about how in particular the region might relate differently to other parts of the world, particularly North America, following the East Asian crisis and following the longer term structural change that has taken place in East Asia which sees more economic transactions among the East Asian economies themselves. That took a bit of a reversal during the crisis, but that is resurging again now. Over time, we will see the importance of East Asian economies to each other.

Geographically speaking, I include Australia in this group, because Australia is the most exposed economy of any economy in the world in terms of transactions with East Asia. It is more exposed than any of the other East Asian economies themselves. That is growing. Inevitably, there is a new focus on the development of intra East Asian economic associations and arrangements. You know about the ASEAN plus 3 group, which does not include Australia. That really should be ASEAN plus 4, plus 5 or plus 4.5, depending on how you look at New Zealand these days. I think Australia's policy focus needs to be up front in articulating that. That helps to support the development of our financial market play in the region and helps to relate policy development to reinforcing the underlying competitiveness we have in these markets. I think that is an issue for policy attention and for sorting out what I call some of the confusion that we have had over the last few years in our positioning in respect of international trade and economic diplomacy in East Asia and the Pacific.

CHAIR—Thank you both very much for your presentation today. It is very much appreciated.

[9.50 a.m.]

BADGER, Dr Rodney James, Deputy Chief Executive Officer, National Office for the Information Economy, and Executive Director, Information Technology, Department of Communications, Information Technology and the Arts

MALONE, Mr Phillip John, Acting General Manager, E-Commerce, National Office for the Information Economy, Department of Communications, Information Technology and the Arts

PIKO, Mr Gregory, Acting General Manager, Information and Communications Industry Development, Department of Communications, Information Technology and the Arts

THOMAS, Mr Brenton Dale, Acting General Manager, Consumer and Competition Branch, Telecommunications Division, Department of Communications, Information Technology and the Arts

CHAIR—Thank you very much for appearing before the committee today. We apologise for keeping you waiting. Would somebody like to make an opening statement?

Dr Badger—In the invitation to appear there was a series of issues that it was suggested we would like to discuss—the readiness of Australia with respect to e-commerce infrastructure; the comparative attractiveness of Australia with respect to its IT infrastructure; and the opportunities we see for the information industry in the development of a global financial centre. What I have asked my colleagues to do is to prepare a short response to some of those issues which would run over the top of the major points there. If you would like us to do that, we could then respond to any further questions.

CHAIR—Yes.

Dr Badger—There is a degree of material, as you would imagine, on these subjects, and we could assist the committee by either giving it to you or showing you where it can be obtained. We might start with a discussion about how we see the e-commerce infrastructure in broad terms. Mr Malone might like to discuss that issue.

Mr Malone—Australia is quite well positioned in terms of electronic business and the emerging information economy. We are among the leaders in terms of Internet infrastructure, the penetration of the Internet and Internet activity throughout not only the finance sector but all areas of the economy. Ninety-five per cent of our large businesses are connected to the Internet. Those figures go down to about 40 per cent for smaller businesses. We are ahead of lots of other areas in the world, particularly Europe, in respect of connection to the Internet. Based on the latest figures from the UK, 25 per cent of its businesses are connected to the Internet. We also have amongst some of the lowest Internet access prices in the world. We are behind only Canada, Finland, the USA and Iceland. The finance sector has been a key driver in converting our Internet users to Internet transactors.

Internet banking in Australia is one of the newest forms of electronic commerce and probably one of the fastest growing electronic applications in Australia. In terms of electronic banking, we have quite high penetration rates of business to consumer electronic transactions, right across ATMs, EFTPOS, phone banking and Internet banking. ATMs penetrations are around 74 per cent of the population. Internet banking, because it is newer, is a lot lower, at five per cent, but it is growing quite rapidly. We also are finding it hard to get some accurate international comparisons in this particular area of data. What comparisons we do have suggest a dominance of Scandinavian countries, but Australia is, as I said, well up with the leaders. All Australian retail banks are now offering state-of-the-art Internet banking facilities. This area has been a particularly strong phenomenon in terms of growth over the last six to nine months in Australia.

The National Office for the Information Economy produced a number of guides last year, which I am happy to leave with you—a guide for electronic banking for smaller companies, a guide to personal Internet banking services, and a guide for smaller companies in getting on the Internet and using electronic banking services. One of those services is Westpac's IMAX services where businesses are able to prepare import and export schedules and arrange finance from a PC anywhere in the world at any time. We believe that this is not available anywhere else. Australian national banks have also established national infrastructure to handle small business requests for credit card merchant status, which has removed a major impediment to small business offering credit card facilities now on the Internet.

In terms of an area of financial services, we have seen significant transformation of the broking sector in Australia, too. Twenty-five per cent of trades are now undertaken over the Internet in Australia and we have the highest saturation of electronic brokers in the Asian region. In terms of superannuation, given recent legislation to improve employees' choice of superannuation funds and to increase the portability of finance between superannuation funds, NOIE is involved in a major project which is under way to electronically enable this paper based industry. We are involved in that project with significant partners such as the tax office, the Australian Superannuation Funds Association and the Investment and Financial Services Association. This project is about establishing standards and processes to facilitate electronic information exchange. It currently has on board 50 per cent of the superannuation industry and we believe that it will be a significant driver in facilitating that portability of funds in the superannuation industry. The good thing about this is that the technology and standards that had been developed in this particular project can also apply to other financial services areas.

In terms of insurance, this is somewhat of a lagging sector of Australia's financial sector in terms of electronic commerce. It is strongly paper based, yet it does touch every business in Australia. It is somewhat poorly positioned currently for electronic commerce, but we are undertaking a national scoping study to get to the bottom of the problems in the insurance industry to look at what the issues are and what impediments there are to the uptake of electronic commerce. That will be available in about a month's time.

Dr Badger—The second question we were asked to address was the comparative attractiveness of Australia with respect to its IT&T infrastructure. That is obviously a discussion that took place earlier with Professor Drysdale as well. The government, as you know, places a high priority on having a telecommunications infrastructure particularly which is world class, et cetera. In recent times, we have had an inquiry undertaken by a subcommittee of the Australian Information Economy Advisory Council to look at bandwidth requirements in Australia.

Probably the best way of getting an overview of the telecommunications infrastructure and related activities is, I think, to give you a rundown on some of the findings for that. Mr Thomas will now proceed to do that.

Mr Thomas—I might also provide a number of copies of the actual MBI report to the secretariat which might be of assistance, given that it is probably the most recent and probably the most informative of reports that we have on the whole issue of bandwidth. As Rod mentioned, I am probably more focused here amongst this group on the telecommunications infrastructure aspect. I think that the telecommunications infrastructure is going to be extremely important for the development of the global services centre. I think capacity and price of both domestic and international bandwidth is going to be one of the key drivers probably as to whether these sorts of services become competitive in a global market. I think there was some mention of that by the previous speaker that, because of the changes in the way people do business, there has been a move towards relevance of where you were physically placed. I think that that is only going to grow over time as our links become stronger and stronger.

I might give a bit of a background to the MBI report itself. It was commissioned, I understand, in late 1998 to examine the bandwidth outlook for Australia's international and domestic trunk network—telecommunications network. The report was released publicly in April and it identified a range of issues that are faced by industries requiring larger bandwidth capacity. Essentially, though, it is fair to say that the inquiry's findings were positive, both in terms of the capacity of bandwidth that is available to users and also the wholesale pricing for bandwidth. That is particularly true, I think, internationally and also on the provision of services between major capital centres. In this respect also, the findings were fully consistent with the longstanding telecommunications policy objectives about promoting competition, encouraging innovation and flexibility, and generating greater growth and services.

Firstly, in terms of the international links, currently the report states that we have somewhere around 38.5 gigabytes of capacity coming in through international links into Australia. This was basically in 1999. Between 1998 and 1999 there was basically a tripling of that capacity, bringing it up to 38.5 gigabytes per second. Next year, however, there is going to be a new undersea cable installed—the Southern Cross Cable—which is probably going to increase capacity by a further 400 per cent, which will take us up to 158.5 gigabytes of capacity. That is a huge increase. The other important thing I think about the Southern Cross Cable is that it involves a number of new carriers and players in the Australian market. The sorts of players that are aggressively seeking market share are Cable and Wireless Optus and MCI WorldCom. So we are going to see a fair amount of competitive pressure coming on to those international links.

The other aspect is that there is technology changing for the existing cables. Things like techniques called wave division multiplexing have the potential to increase the existing cable capacity by 40 or 50 times. So I think in terms of capacity and competitive pressure it is pretty clear that the environment is looking quite good. In fact, in terms of prices of international links, the MBI came to the conclusion that the price is likely to fall by 50 per cent per year and it is actually likely to continue that fall every year for the next five years. So they are fairly significant decreases in prices.

In terms of the domestic scene—the interstate links primarily, the trunk links—I think the report also found that there was no shortage in bandwidth in the CBD and in provincial centres as well or on the interstate trunk routes. In fact, there is increasing competition in these markets, again partly through new technology, particularly in CBD areas, such as the LMDS and the ADSL services that are coming on stream probably over the next year or so. But also the MBI found that the wholesale prices for those services had decreased around 30 to 50 per cent over the past year and they were likely to continue to have fairly significant reductions in forthcoming years as well.

I think the story associated with all of this is that the market is maturing at a very rapid rate. There are really dramatic increases in competitive pressure, and that is translating into both significant increases in capacity and also significant and real reductions in prices. So in terms of the overall question of bandwidth as an issue for something like a global financial centre, I think the outlook is quite positive and very, very good.

Dr Badger—In relation to the third issue, the opportunities perceived for the information industry and the development of the global financial centre, Mr Piko will make some comments on the state of the Australian information industry, et cetera. But first of all, I will just mention that the areas of the department and the office which deal with encouraging investment in the IT industry in Australia have been working closely with the Australian Centre for Global Finance, which reports to Mr Hockey. At the moment we are preparing a series of background information papers on the IT industries and the supporting telecommunications structure to be used as part of their work to highlight Australia's IT&T capabilities, and we expect that material to be available in late August or early September. Just to give you a brief overview of the state of the Australian IT industry and who the leading players are, I turn to Mr Piko.

Mr Piko—As Dr Badger said, I intend to just provide an overview of Australia's IT and telecommunications industry capability to provide a general sense of its potential to serve the needs of the finance and superannuation sector. Australia's IT&T industry has been growing quite strongly in recent years, and total annual income stands at something of the order of $60 billion per year in that sector. That IT&T market in Australia is the second largest in the Asia-Pacific region behind Japan. IT&T in Australia employs something of the order of 200,000 people and comprises some 18,000 separate enterprises. Most of those enterprises are small to medium Australian enterprises working in the sector, but it also includes the range of multinational companies in the computing and communications area. Four areas of IT&T, namely data processing, computer consultancy services, information storage and retrieval services, and telecommunications services, were in the top 10 fastest growing industry sectors in Australia in 1998-99. These IT&T firms tend to engage in relatively high levels of research and development. For example, the R&D per employee in computer software and services is some four times higher than the R&D for industry as a whole.

I will provide an indication of the sorts of companies and capabilities that exist in some of the IT&T sectors. With regards to IT hardware, the manufacture of computing equipment, multinational companies such as IBM, Compaq, Hewlett-Packard, Gateway and Dell all have a presence in Australia and serve the local market. In addition to that, there are various Australian companies, such as IPEX, which manufacture personal computers in Australia and serve the Australian market. There are also companies in Australia that are manufacturing components for PCs. AWA manufactures graphics controller chips, and memory modules, video accelerators and system main boards are manufactured by Legend. In terms of IT software—

CHAIR—What about HarTec? Are they a significant player?

Mr Piko—Yes, they do have a presence. I am not familiar with the detail of it, though. In terms of IT software, the multinational companies again—such as Microsoft, Lotus, Oracle, SAP, Borland and PeopleSoft—all have a significant presence and serve Australian industries. And, of course, there are a vast number of Australian companies that are in the software development and applications area that serve a range of Australian industries.

In terms of telecommunications equipment, again there is a substantial presence for the major multinational companies, such as Ericsson, Alcatel, Philips, Siemens, Lucent, Nokia, Motorola, NEC and Nortel. In addition to that there are a number of Australian companies that are active in the manufacturing of telecommunications equipment, such as ERG, JTEC, Codan and some others.

With the telecommunications carrier market having been opened to full competition in 1997, there are now some 45 licensed carriers in Australia, comprising both foreign owned and Australian owned companies. With that competition they are offering telecommunications services on a range of different platforms, which has meant that the skills base and the capability of Australian based industry to provide services on a range of fixed line, wireless and satellite platforms has increased.

I conclude by making reference to the IDC/World Times Information Society Index, which looks at a range of key variables for 55 different countries—key variables to do with the computer infrastructure that exists, the communications infrastructure that exists and the Internet infrastructure that exists within the country. Based on an assessment of those variables, Australia is ranked ninth behind basically the North American and Scandinavian countries but ahead of Japan at 10, Singapore at 11, the United Kingdom at 12, Germany at 13 and Hong Kong at 14.

CHAIR—That is a good point to finish on.

Dr Badger—I was just going to add that this issue of, if you like, international benchmarking of Australia's position in the series of issues we have been talking about is a very significant one for us. There is a lot of work going on in the department now. We are looking at cooperating, for example, within the APEC forums because there is a study under way there which involves a very large number of the APEC members. I do not know what expression they use, but in general terms they are looking at the comparative status of the various players and their e-commerce readiness, if you like. That is a significant part of our activities.

We have a significant set of indicators and statistics which are produced and published on our web site. While there obviously needs to be some caution in interpreting international comparisons, in general terms most of the material we have would say that there is a high orientation of Australian industry in general towards investment in the IT&T sectors. Recently, the OECD ranked Australia third in terms of its IT&T expenditure as a proportion of GDP, ahead of both the US and Japan. Obviously, depending on what statistics you are using—what particular thing you are measuring—you are going to get differences between various countries over time, but it does appear that on the bulk of the work we have done there is this very high orientation in Australian industry towards investment in these sectors, which should ensure that the needs for the type of areas you are looking at are able to be met from within the Australian economy. It does not mean they will be, of course, but the capabilities are at least there.

CHAIR—Thank you. I am not sure whether you heard the presentation from Professor Drysdale, but there was an issue we did not have time to take up with him. He indicated that he was concerned that telecommunications policy may well hamper the development of Australia's role as a GFC. Given that telecommunications infrastructure and development in technology and the sophistication of it has been regarded as one of our very great strengths in developing this global financial services centre position, what do you think he was referring to? We might have to take it up directly with him, but is it a matter that you are aware of?

Mr Thomas—I am not sure of exactly what constraint the professor was referring to, but—

CHAIR—It was a policy constraint.

Mr Thomas—I am not sure what aspect of it. The intention of the telecommunications regime is to encourage investment and to encourage competition and all of those sorts of things. That is in fact reflected in the figures that I mentioned before. We are actually getting an explosion of competition, not only at the local level but also internationally. We are getting exponential growth in the capacity of our international links. All of these things result, eventually, in reduction in prices, which encourages people to come here. So I am not sure exactly what aspect he is referring to. Actually I would be interested to find out.

CHAIR—I thought, given your position, you might be aware of an issue.

Mr Thomas—I must say: one of the things we talked about a little before we came here is that we have not heard from industry about the telecommunications regime being any sort of constraint to the operation of something like an international global centre. In fact, in many cases we have heard the opposite—that it is a strength. Our capacity is going up dramatically and our prices are going down. Our regime, because it is so open and competitive, is very encouraging to a lot of organisations. So I must say I am not sure exactly what it is.

Senator HOGG—The question I raised before related to the spread of the Internet, e-commerce and so on. What makes it certain that we have a reasonable prospect of being a global financial services centre? Out there in the ether of the Internet, as I understand it—I am not the world's greatest—surely it really is immaterial where the so-called centre is situated. What makes our position better?

Dr Badger—There is still some significance associated with the actual physical position of a centre, if for no other reason than that people prefer to live in certain locations. Even though you are talking about a financial centre and perhaps about a large amount of the transactions now being electronically based, at the end of the day there are people associated with these centres. One of the major selling points for Australia as a regional headquarters in other industries—I think it applies in this one as well—is simply the nature of Australia—the lifestyle, et cetera. So it never becomes totally locationally dependent. These things do affect the attitudes people have to investment here.

The thing about the Internet, as you rightly point out, is that it provides not only opportunities but also challenges. We talk a lot about the fact that small and medium players are now able to access clients, et cetera, in overseas countries just as easily as they would next door in Australia. But that also means that people in overseas countries can target their clients. What we have to do, I think, in terms of the Australian environment is ensure that we have this, if you like, technological capability—ensure that the technology infrastructure is there. I refer for example to the things that allow bandwidth associated with e-commerce to be effectively supplied. They are the sorts of things we talked about in telecommunications.

The other issue is about ensuring that the regulatory framework is such that there is the certainty of the legal backing necessary for these transactions. That has been a large priority of the government in recent times, with electronic transactions acts, with movements on security standards to ensure security of transactions, and a lot of work by the National Electronic Authentication Council, which is a combination of government and private people who are looking at the fundamental things that allow people to feel secure about involving themselves in electronic transactions. I think that it is this combination of things that will allow Australia to be one of the players. It is this old thing—what is the way the expression goes?—necessary but not sufficient. You have to have the necessary in place and then I think the issue is drawing attention to the fact that Australia has this combination of factors here. That is very much behind the activities of the Australian Centre for Global Finance and Government Policies in this area.

As you are no doubt aware, a large number of potential international investors do not naturally think about Australia as a place to invest. What we need to do is draw their attention to it—find some way of getting their attention—and that is what the general thrust of policy is, that is why we have particular investment advisers. We have had an IT&T investment adviser to the government who looks particularly at those issues. We have a general 'invest in Australia' policy, et cetera. So it is that combination of things so that you have the opportunity and you have got to build on the opportunity.

Senator HOGG—I understand that side of the equation. The other side of the equation is, though, as I said when I was talking with Professor Drysdale earlier, that there are non-tariff barriers. Even though we might have all the circumstances required to become a financial centre, if there are non-tariff barriers out there and other barriers and we just do not have the access, then all of our efforts go to naught. What are we doing to ensure that we are viewed as being able to access all the places—not only throughout Asia but globally—with the barriers taken down? What are we doing to take the barriers down? When you mentioned APEC, my ears tweaked.

Dr Badger—Certainly, we are probably not in the best position to comment on the full extent of the government's activities in regard to reducing trade barriers. You are right: there are trade barriers associated with various activities.

Senator HOGG—I am not trying to talk about trade barriers right across the gamut of goods and services, but particularly in this IT area. There must be barriers that are put in place by countries trying to protect their own marketplaces in this burgeoning area.

Dr Badger—There certainly are. What usually happens is that then there is a concentrated activity related to trying to remove particular problems. One area that has received a lot of attention in recent times has been the issue that APEC has addressed with regard to—

Mr Thomas—Internet charging.

Dr Badger—APEC ministers at their recent meeting in Mexico were able to get, effectively, concessions out of the US. The prior arrangements virtually disadvantaged players in Australia and the rest of Asia and potentially in Europe because of the way pricing was done. You could argue that that would bias activity towards being based in the US, but after a very significant period of discussion and debate, the position that was being put by the APEC nations has been accepted. That will enable a significant improvement in the competitive position of people who are providing these services out of Australia.

So there is a recognition of the sort of issue that you are talking about. I have not had a large involvement in international activities, so I am not terribly familiar with particular instances but, in that particular one, there was a problem identified and then people focused on the problem and used the forums available. Australia does have a very significant presence in APEC committees on e-commerce, et cetera, and part of that is to try to work with people in South-East Asia to try to open up the flow so that we do not end up with those boundaries, or barriers.

Senator HOGG—Do we have barriers ourselves which militate against us being a global financial services centre in the IT&T area?

Dr Badger—I am not aware of one. As we said earlier, usually in this area where an industry has a particular problem or sees Australia as being disadvantaged—once somebody talks about encouraging investment in that area—we usually find out very quickly if somebody believes that there is a significant problem.

Senator HOGG—So we cannot identify any specific problems necessarily from our perspective. What about externally? Do we know what the barriers are that would discourage—

Dr Badger—The barriers that Australia has raised? I could take that on notice and see if there is some material around that would suggest that. We are certainly known for having a very open and competitive telecommunications environment. Certainly, there have been very massive changes in Australia over the last few years in that area. I think that most places would say that if you wanted to look at a relatively sound model of a competitive environment in that area, you would look at Australia where the barriers to entry are negligible.

Mr Thomas—I think that is actually reflected in the number of new players that we have got in the market, particularly in the telecommunications area over recent years. We have certainly attracted a lot of attention from multinationals and all sorts of people coming in and wanting to invest because we have an open regime.

CHAIR—Does Australia have a potential niche market in backroom support services in the telecommunications area?

Mr Thomas—Sorry, Senator, in terms of backroom support, you meant—

CHAIR—Information.

Mr Thomas—And in content development?

CHAIR—Yes, information assistance, et cetera.

Mr Piko—Certainly, in terms of telecommunications, what have been called telecommunications call centres in terms of providing customer support, Australia is well placed and has had significant growth in that activity, including call centres that are providing services, if you like, on a global basis, not just to customers within Australia. The notion of a customer support call centre has evolved into other forms of technical support which can be provided from effectively a call centre type operation. Australia has been considered to have particular strengths in some of these areas, because of the combination of our technical skills and also the language abilities of our population, which has helped in being able to set up facilities that do service global markets.

CHAIR—From your perspective, how do you view our educational training services? Are they adequate for our needs? Could we further develop such services?

Dr Badger—I think the issue of IT&T skills, particularly, has received a lot of attention. It is an issue not only for Australia but also for the rest of the world. It is something that the government is acutely aware of as something that needs attention. The government is working with the industry now in the establishment of an IT skills exchange which will focus on this issue. A lot of work is being done. We do a lot of work with Education on this particular matter.

It is a very complex area, because we are getting the changing nature of people coming out of the education system. There has been historically a need for people with specific IT skills who are trained in something called information technology, but as we get generations coming through who actually are familiar from a very early age with computers, then the ability to respond to some of these gaps in the skills requirements may well alter. We may not need so many professionally trained IT people but simply find a better way of using people with more general familiarity with computers. I think that it is important to say that the issue of IT skills particularly is one of these things that we have to keep paying attention to. The government will continue to do that. It is a very significant part of the work that we do.

Mr Malone—As you would expect, the finance sector is rated as the highest in Australia in terms of the proportion of IT&T skills.

CHAIR—Is physical distance and the need to be in Silicon Valley, London or New York still a hurdle for Australia?

Dr Badger—I think the way to respond to that is to say that it is nowhere near the hurdle it was. As you get more familiarity with people working with electronically connected systems, the actual location issue disappears. However, you cannot get away from the fact that it is important for Australia to make its presence felt where the major decision makers are, whether it is Silicon Valley or some other place. That is why a significant part of our work is related to investment attraction activity. That is aimed at, if you like, getting involved in those places so that the people who congregate there are aware of what Australia has to offer. It is a disadvantage that is changing over time, but it is still something that we have to pay a lot of attention to if we want Australia to be noticed.

CHAIR—Many companies are offering venture capital or garage funding to Australian technology start-up companies. How do you see this progressing?

Dr Badger—The venture capital market, particularly for IT, in Australia is one that has expanded quite dramatically in recent times in terms of the availability of capital for all parts of the IT industry from start-ups to longer term financing. We can certainly give you data on the availability of capital and how that has changed over recent times. Certainly, the changes in the taxation environment have been welcomed by that industry. There is already significant evidence that that is leading to a further increase in capital availability and also the participation by some of the major international venture capital companies into Australia.

CHAIR—A comment was made about the rise and fall in the index on the Nasdaq exchange. It was said that the problem for Australia is that we just do not have enough companies to even contemplate the equivalent of Nasdaq. Would you like to comment on that? Is that likely to change?

Dr Badger—I think you would be better off getting a comment from somebody who deals particularly with the finance market. In general terms, there is the proposition that the stronger the local industry and the more players in it means it will be better positioned. But issues to deal with thinness of markets and those sorts of aspects are not really my cup of tea.

CHAIR—Thank you very much for appearing before the committee today.

Dr Badger—I reiterate that we do have a lot of reports and information. If the secretariat wishes to talk to us about that, we can provide it.

CHAIR—Thanks very much.

Proceedings suspended from 10.31 a.m. to 10.41 a.m.

LENNON, Mr Andrew, Risk Manager, Namoi Cotton Cooperative

CHAIR—Mr Lennon, thank you very much for agreeing to participate in this teleconference.

Mr Lennon—That is fine.

CHAIR—You come from a different perspective. We welcome your presence. Given that this is a teleconference, I point out that you are protected in terms of what you say before the committee under the heading of parliamentary privilege. This means that you are given broad protection from any action that may arise—we doubt that it will—and that the Senate has the power to protect you from actions which disadvantage you on account of evidence given before the committee. I thought that we should mention that to you in view of the fact that this is a teleconference. I invite you to make an opening statement in line with the guidelines given to you by our secretariat when discussing this presentation. Also, I would like to introduce the members of the committee: I am Senator John Watson, the Chair of the Senate Select Committee on Superannuation and Financial Services; Senator Stephen Conroy is a shadow minister and a Labor Senator from Victoria; and Labor Senator John Hogg is from Queensland.

Mr Lennon—I agreed to do this when the lady rang up the other day concerning some views you wanted in terms of the futures industry and specifically the agricultural industry. I do not know whether any of you know this, but Namoi Cotton is a cotton merchant in Australia. We buy cotton from a number of farmers and we on-sell that cotton to various centres throughout the world. Asia is our primary market. The price of that cotton is based on the New York Futures Exchange and the New York Board of Trade cotton contract. Basically, buyers and sellers within that exchange set the price, and it is priced in US cents per pound. Specifically, being in Australia, whenever we sell cotton throughout the world it is priced in US dollars. So on top of having a futures price risk, we also have a foreign exchange currency risk. My position here is as manager of those two risks when we purchase cotton from an individual grower. We go out each day and offer an Australian dollar price to a grower. We also offer a US dollar price, if the grower has his own currency. We have to hedge those exposures accordingly when we purchase that cotton.

When speaking to the lady who set this up, she asked me whether I had heard of the International Financial Centre Task Force. I must say that I had not heard of it. I asked a couple of my colleagues here, and they had not heard of it, either. I was quite happy to talk to you about it, not knowing much about the task force itself.

CHAIR—Are you aware of other significant Australian agricultural industries engaged in forward marketing?

Mr Lennon—Yes. I think you would probably be aware that the wool industry has a contract on the Sydney Futures Exchange. There is also a wheat contract on the Sydney Futures Exchange. I believe they have just added a canola and a sorghum contract on the Sydney Futures Exchange. Obviously, those agricultural industries are looking at forward pricing. It offers an opportunity for a farmer or an end user to lock in a price they are happy with at a future date.

I believe—and I have worked in the futures industry as a broker broking soft commodities, such as wool, grain and cotton—that the cotton users are probably the most extensive users of futures contracts. Obviously, wheat is a product that Australia produces a vast amount of. But an amount of that wheat goes into the pool of the Wheat Board, and I do not think individual growers would use futures as extensively as cotton farmers do. At Namoi—and I know our competitors offer the same process—a farmer can ring up and can set his own futures price on the day. He can put in an order and we will execute that order overnight. Obviously, being in New York, the market opens at 12.30 a.m. and trades for just over four hours, finishing at about 4.40 a.m. So we send orders off to brokers in the US who execute those orders for us. As far as I know, those are the main industries that use forward pricing.

From your perspective, you are perhaps looking at Sydney being a larger financial centre in terms of volume, using the products that already exist on the Sydney Futures Exchange and perhaps introducing other products such as cotton. One hindrance, I believe, is the volume that you need to make a liquid market in those various contracts. Wheat is fairly lightly traded on the SFE. We do not have the volume in this market to make it a competitive market.

In relation to most of the major corporations that deal in the grain market, even though they use the Sydney Futures Exchange to an extent, most of their hedging would be done either in Chicago using the wheat contract over there or in Kansas City using the wheat contract there. In terms of the canola contract, I know from my previous employment that the Winnipeg Canola Exchange is where most of the canola hedging by Australian merchants is done. The introduction of the new contracts on the Sydney Futures Exchange will see some hedging come here, but the volume is too light for that market to be competitive. In my opinion, in Australia we need to have more end users coming into the market. Obviously, with Australia being mainly a producer, most of the business that is done in the contracts is more from a selling side. We do have some end users here in Australia, but the volume is very light compared with that on the main exchanges in North America.

CHAIR—You obviously see an advantage to the growers in that they can improve their margin through being directly involved in futures, with you risk managing those contracts. What additional percentage return do you think this operation provides to the cotton industry in Australia?

Mr Lennon—That is interesting. As a merchant, we price out three years in advance. We have farmers who have sold cotton through the year 2002. When a farmer has the ability to forward price at those levels, no matter what product he is growing, he obviously knows his cost structure. He knows what he can grow his crop for. They would have a target in terms of what they can sell that crop for. The ability to lock in these prices two or three years in advance gives the farmer comfort in terms of his cashflow for those future years and the returns he will be likely to get. It can give him the opportunity to budget for further development because he knows that he has locked in a certain price for his commodity and, depending on the cost structure and whether that changes greatly, the margins that he has been able to lock in.

In terms of percentage, it would be hard to say how much of a gain the grower has in doing that, but I know that when we have had the currency come off, as we have seen lately, and futures have rallied in all commodities, the grower having the opportunity to lock in a crop two years in advance is probably - we have seen prices move in a range of 20 to 30 per cent differences between where the high and where the low has been over the last six to 12 months. So if a farmer had locked in at certain prices he could be getting 25 to 30 per cent higher than what he could achieve if he sold just in the cash market. That can be obviously greater and it can be less and, as you know, the markets move around. But just the ability, I think, to do that obviously makes the farmer feel more comfortable because he knows he has locked in a price and he is going to make a margin and on the day, if the price is higher, then he has missed out there, but he has had the opportunity to be comforted by the fact that he has locked in a price and he can budget for future periods.

CHAIR—I come from Tasmania. The southern part of the state, the central highlands, is coming through one of its worst droughts ever. How does the farmer protect himself in terms of failure to secure water to water his cotton crop maybe in the year 2002 if there is a severe drought?

Mr Lennon—Obviously a grower, unless he is very aggressive and confident in his water situation, would not lock in the maximum of his crop. A number of the growers that we speak to may lock in 30 per cent of a future year’s crop at a price that they are happy with, and then when they are confident that they will get the water they will start to lock in a bit more of their future year’s crop. Obviously, with the water situation and the drought, with respect especially to those people who irrigate off rivers, they need to get their allocation. If we have had a drought, obviously those allocations are going to be cut and they will not receive the expected water to grow their crop.

In terms of my experience, a sensible grower would not lock in the maximum amount of his crop because he is not guaranteed of having the water. Those growers that have a sufficient amount of water and know that they will receive that allocation—whether they are underground water users or river licence users—they will lock in maybe a higher percentage of their crop. But definitely the unpredictability of the water situation will limit the farmer as to how much he can hedge out in future years.

CHAIR—I have two questions in relation to the level of funding. Firstly, can you give us an aggregate figure of the amount of money that is involved in futures trading in the cotton industry and could you tell me how much futures trading represents as a total of the total cotton sold?

Mr Lennon—Every bale of cotton that is bought by a merchant in Australia is hedged. So at the moment we have a cotton crop in Australia of 3.2 million bales. That, at the moment, in my mind is fully hedged. The Australian merchants are in fact one of our largest hedgers and users of the New York contract. From talking to the brokers over there that we speak to, they believe that obviously the US, being the largest component, are the biggest users of the contract and then probably Australian merchants are the next biggest users of the New York contract. As a percentage, I could not say what percentage of total volume Australian merchants use each year, but it is very significant compared to other countries in the world.

With respect to the first question, on the dollar value of futures trading, in terms of where we are at the moment, as I said, cotton is priced in US cents per pound. If we look at the contract that we hedge on at the moment, being the December contract, it is trading around the US60c per pound. That would be about $US300 a bale. So if you look at an Australian crop of 3.2 million bales times $US300, that is about $960 million, I believe.

CHAIR—Close to a billion.

Mr Lennon—Yes. That is just hedging. Obviously, each merchant in Australia may trade around. I know as a fact that we try and enhance our positions. So we would be trading a greater volume than just doing a hedge and leaving it; not setting and forgetting—we would be actively managing our position, so we would be in and out using these financial futures.

CHAIR—Have you any concluding comments?

Mr Lennon—I have been in the commodity industry for about seven years and it is good that Australia, in terms of the futures exchange, has developed these contracts mainly on the grains at the moment. Obviously, it is the target of this task force to implement Australia as a financial centre, but the volume is obviously in the US and the liquidity is in the US. We would need our other markets close to us, mainly Asia, which is really a consumer of our agricultural products, to be active. If we developed a cotton contract, or even in the wheat contract that we have established already, we would need to target those end users and get them to use our market as it would increase the liquidity. Otherwise it is very frustrating if you cannot get set in terms of the price that you want or the market does not move around; in those cases then it is so much easier to send your orders across to the US where you know there is some liquidity in the market and you will be able to get set on a position. I think the one hindrance here in Australia is that we cannot get the volume to trade in our market. If we established a cotton futures contract here in Australia it would be interesting and we would have a lot of sellers, being growers, but as we do not really manufacture here in Australia, a great amount of cotton is mainly sold overseas. We would need those end users to be in here to provide the liquidity in the contract.

CHAIR—Thank you very much, Mr Lennon, for sharing your experience as a risk manager and trader for Namoi Cotton Cooperative. We certainly appreciate the information that you have given us which is on the public record and we will give you a copy of the transcript of your evidence. You have the right to correct any issues that you feel may not have been adequately expressed. We appreciate the time that you have taken.

[11.01 a.m.]

EDNEY, Mr Ian Charles, Vice President, Taxes, Broken Hill Proprietary Co. Ltd.

MYTTON, Mr Alistair, Manager, Corporate Tax Advisory, Broken Hill Proprietary Co. Ltd.

CHAIR—Good morning. Thank you very much for agreeing to participate in the Senate Select Committee on Superannuation and Financial Services telephone hook-up in relation to our inquiry into paragraph (b) of the terms of reference. I am Senator John Watson, chair of the committee. I am a Liberal senator from Tasmania. We have Senator Stephen Conroy, a shadow minister from the Labor Party and a senator from Victoria; and Senator John Hogg, a Labor senator from Queensland. Given that this is a telephone hook-up, I have to outline some of the processes. You are protected as a witness, even on a telephone hook-up, in terms of the information by way of evidence that you shall give to the committee by virtue of parliamentary privilege. This means that you are given a broad protection from action arising from what might be said. The Senate does have power to protect you from any action or any disadvantage on account of evidence given before the committee. We invite you to make an opening comment and then the committee will ask you a number of questions.

Mr Edney—BHP is a global resources company and has accepted the invitation to make some comments, albeit at short notice, on some of the committee's terms of reference. That is the basis on which I appear today. Would you like me to start, Mr Chairman?

CHAIR—Yes, if you would not mind. I understand that you have particular concerns in relation to remuneration of expatriate staff, the impact of foreign investment—issues such as capital gains tax, e-commerce, withholding tax arrangements and maybe some superannuation difficulties in terms of bringing staff from overseas into Australia and, in turn, what happens to that money when it is here.

Mr Edney—I will certainly be addressing some of those matters in the next few minutes. In particular, I wanted to focus on some of the business taxation and the expatriate employment constraints which are barriers for Australia to become a centre for the provision of global services. I wanted to focus, I guess, on two aspects: the corporate tax issues which surround issues concerning profit repatriation, given Australia as a key base in the world, and the ability to flow dividends through Australia, and also the issue about offshore activities being held from Australia, and concerns about joint venture activities offshore and how those profits can be remitted and not be doubly taxed in circumstances where they are taxed in the first instance on a comparable basis. I want to also address dividend withholding tax issues and some transfer pricing issues, which I think are very relevant when you are talking about using Australia as a service base for services that you are providing not only to external customers but to global customers in multinational companies within a group.

On the employment side for expatriates, as we all know it is terribly important for Australia to have a competitive system so that it can attract and retain the talent that we need as a nation to be competitive in what is an ever changing environment. That raises a number of issues in terms of bringing employees to Australia. It raises issues about retirement plans, health insurance, the employee share plan and also the expatriate's personal assets and how they might be treated once the person completes an assignment in Australia. I guess there is also one other aspect which it is always relevant to talk about in a competitive environment, and that is how Australia's overall tax rates for individuals might compare to the rates of other locations around the world. So it was in that context that I wanted to make some comments.

I will start with the corporate tax issues. The so-called dividend streaming issue, which is the issue which allows companies to bring foreign profits into Australia and then remit them to foreign shareholders without any income tax effect in Australia, is something that was addressed in the Ralph review. It was accepted that it is certainly an important issue. A final recommendation to progress with that was not made, though, on the basis that there would be a large cost to the revenue. I think there obviously is a revenue cost in it, but it is important to note that other countries do it. Certainly, the US and the UK have comparable systems in place which make them more attractive for having international headquarters.

CHAIR—By this you mean that dividends earned, for example, in the United States are able to be identified and allocated to the US shareholders without the implication of Australian taxes. Is that the issue?

Mr Edney—Yes, that would be right. Secondly—and this is an instance that BHP is currently involved with—under the Ralph committee, if you have an offshore subsidiary—and let us take a mining project in, for example, Indonesia—that project would be subject to tax in Indonesia, but the profits could be remitted back to Australia exempt from any Australian tax in the company's hands, provided that it is a wholly owned project of BHP. However, if it were a joint venture project—and I must say that this is really the norm, not the exception, when we talk about mining and petroleum projects offshore in the commodity businesses—to share risk and rewards it is very common for incorporated companies to joint venture. Under that scenario, the profits would be taxed in the first instance in Indonesia and then there would be a second level of tax upon receipt in Australia. That, of course, creates a very big disincentive for undertaking foreign projects owned through Australia with joint venture partners.

CHAIR—Would those earnings from Indonesia in your example be subject to any tax credit from Indonesia, though?

Mr Edney—No, because under the rules in Australia they would be exempt, so they are not taxable. Therefore, there is no credit available to be passed through. The next point concerns dividend withholding tax rates generally, and this again was flagged by Ralph at paragraph 22.21. We are seeing a trend overseas in Europe in particular to zero withholding tax rates. Of course, that is part of the development that has occurred with the bringing together of a single economy in Europe. But also the US has had a number of its treaties negotiated down from 15 per cent to five per cent and, in particular, they have one with Canada at five per cent. There are a number of other treaties with Europe at five per cent also. Australia has really lagged in this international development and there seem to be a number of reasons for that which are, I think, involved in the delicacy of negotiations. Part of the problems have related to the fact that, when Australia introduced the franking system, at that time it gave away the withholding tax on franked dividends paid offshore. So it lost leverage in being able to try to get the reciprocal arrangement from the other countries that we had double tax agreements with. So now it is a very difficult negotiation to have. Nonetheless, I think, to be competitive, we need to readdress that and revisit it much more quickly.

I mentioned transfer pricing. With respect to the establishment of a global services company in Australia—and I am thinking in the context of a multinational company providing services in-house to its subsidiaries all around the world—the Australian Taxation Office has ruled, under tax ruling 99/1, that Australia must charge a 7.5 per cent mark-up on such services. This has implications because in other countries that mark-up may not be allowed as a tax deduction. Of course, that comes as an extra cost to the company group if that is imposed. There are examples around the world where cost recovery is acceptable and, in particular, the OECD guidelines lock into cost recovery and the US accept cost recovery for those arrangements. I think that this is an example where Australia has to be careful not to be out of step with the developments that are happening around the world.

Just to be clear, I am talking here about in-house services being provided to offshore subsidiaries so that your centre of expertise is sitting here in Australia providing know-how and knowledge offshore. It is a question about the extent to which mark-ups need to be required for what are called non-core services. I want to emphasise that: I am not talking about core services. There is an acknowledgment that core services, of course, have a mark-up and that is understood, but I am talking here about non-core services, and they are defined in the ruling.

Before I turn to expatriate employment issues, I will mention one other thing. Australia will never become a worldwide exploration headquarters base under our rules as they stand at the moment. If one were operating in the US, in Canada or the UK, one could establish headquarters for an exploration base to do the worldwide exploration from that country and obtain a tax deduction in that country for the foreign exploration component against the domestic income. That is something that is not permissible in Australia. While those arrangements are in place, you will never have all the exploration expertise sitting in Australia and the benefits from having that knowledge and the global picture sitting here in Australia. Obviously, that is not a major thrust for the terms of your inquiry but I think that it is relevant when we talk about trying to establish Australia as a global service centre; that does encompass a number of things, not just financial.

I turn to expatriate employment issues. One of the major issues that BHP has is dealing with retirement plans when employees come to Australia. I will talk briefly about the current situation and then suggest how this might better be handled. Due to the operation of Australian income tax, fringe benefits tax and the superannuation guarantee charge laws, Australian companies are compelled to contribute to Australian complying superannuation funds and not foreign superannuation funds in respect of expatriates working in Australia. That, of course, enables the company to get a tax deduction for superannuation contributions in Australia. This is the case even where the foreign funds are genuine retirement plans that are approved by foreign tax and pensioner authorities in comparably taxed jurisdictions. I think that is important, because my comments are in relation to comparably taxed jurisdictions.

Foreign executives with benefits in Australian complying funds are subject to preservation rules. So if you have an executive coming out here at age 35, working in Australia for eight years and then going back to, say, the US, this is obviously a real problem, because they cannot take their benefits until a minimum age of 55 years and up to 60 years, obviously, for younger executives as the preservation age is pushed out under the rules. So this is a disincentive for expatriates working in Australia and it complicates the administration of benefits for foreigners who leave Australia.

I think consideration could be given for our laws to be amended to allow the transfer of such benefits to appropriate foreign superannuation funds or, indeed, better still, for Australian companies to just continue to make contributions direct to those foreign funds and obtain a tax deduction for those contributions. That might be administratively simpler. Although the government had announced in 1997 that it would consider pursuing bilateral agreements with foreign governments for the reciprocal rights for the international transfer of benefits, not one agreement has been finalised. That would have allowed the transfer of Australian benefits back to foreign funds. Indeed, we are not aware of any activity or plan to open such negotiations. If there were attempts to negotiate with foreign authorities, the expected delays in finalising such agreements are really taking a long time and are not acceptable. Hence, changes to our laws may have to be on a unilateral rather than on a bilateral basis. I would also make the point that in the UK and the US there are similar sorts of preservation rules so that to transfer the money back into those funds still keeps it very much within the policy framework of what is intended with superannuation. So there are some general comments in relation to retirement plans.

Health insurance has been of some concern, because under the rules, Medicare access is not automatic. It is automatic where there are reciprocal agreements in place, and there are seven agreements, mainly with Commonwealth and some European countries but notably not the US. As a result, the only means by which the Medicare levy is not payable, given that people coming into Australia are unable to take advantage of Medicare, is by making an annual application to the minister not to pay the levy. I might say that that has not proved to be a problem but, from an administrative sense, it does become a bind. I wonder about the worth of that procedure and whether that could be simplified in some way by elections on tax returns or lodged through taxation, et cetera, as a means to simplify that process.

I turn now to employee share plans. One of the difficulties with employee share plans—and this is consistent with some of the rules that also apply when an expatriate completes an assignment in Australia—is that there is generally a deemed taxable point at the time of departure. There have been some moves in Ralph to try to ameliorate those by putting in place security deposits as a mechanism to defer the taxing point that Australia would have over those assets or superannuation arrangements until a later point where the gains are actually realised. In other words, when the expatriate has the cash in their hands and the realisation of the gains, it is a more reasonable taxing point for them to pay at that time. In relation to the way the rules are working with employee share plans, there is not that deferral opportunity until realisation. Under the Ralph report recommendations, the trigger point is at the time the expatriate leaves the country. That does not really create the right environment for expatriates. They see that as a significant disincentive. I wonder if Mr Mytton would like to add any further comments to that.

Mr Mytton—The only comment I would add is that, under the Ralph measures for expatriates departing Australia, there is a recommendation that the security deposits measures be modelled on the position that is currently contemplated in Canada. Upon review, those rules seem to have some difficulties in terms of the interaction with double tax agreements and also the potential to generate double taxation or the lack of a foreign tax credit for Australian tax paid. Hence, we think that the rules as recommended create difficulties whereas the rules as they currently stand in electing to defer tax to the ultimate realisation of the asset are a more realistic outcome. That would obviously mirror the true economics, whereas to deem again at a particular point is taxing an unrealised gain that may in fact never be realised.

Mr Edney—The position of the expatriate's assets when he or she terminates an assignment in Australia mirrors exactly the same problem. Again, Ralph has gone down a path of a security deposit. There is a big issue relating to double tax agreements and the taxing point in Australia, which occurs at one time, and a taxing point overseas, which can occur at a different time. There may not be the ability to offset foreign tax credits. Therefore, that can create a double taxation situation. That can obviously have a huge impact on the assets of the individuals. Our recommendation in that area would be to consider extending the existing rules which allow the election to defer the taxing point to the actual time of realisation or the time of disposal.

One final point I want to make before deferring to the chairman is to note the individual tax rates which apply in Australia currently, which are in the order of 47 per cent, compared to a few countries overseas. In Hong Kong, they are 17 per cent; in New Zealand, they are 33 per cent; in Singapore, they are 28 per cent; in the UK and the US, they are 40 per cent. Australia is certainly at the top end of those countries in terms of its taxing rate. When bringing expatriates to Australia, that is obviously a big consideration. Expatriates will always look at their after-tax disposable income from assignments. Those existing higher tax rates end up becoming a higher cost to the company to attract and, in turn, retain those expatriates. That completes my comments. I would be happy to take any questions.

CHAIR—Thank you, Mr Edney. Would you like to comment on the concept of option 2 as proposed by Ralph? Are there any advantages, disadvantages or issues of refinement that you see as necessary?

Mr Edney—Let me make this comment in relation to option 2: it was premised on the basis that companies would not pay any more tax under option 2 than under the existing tax system but for the policy changes which are included in Ralph. If that is the situation and if that can result in a simplification of the tax act, then I do not see any reason not to support option 2, and obviously that has to be put in the context of the broader tax package. The big issue with option 2 is one of timing and the ability of taxpayers in Australia and the tax profession generally to be able to digest option 2 changes together with all of the other changes which are taking place in the tax environment at the moment. To that extent, deferral of the implementation of option 2 might be a reasonable approach.

There is another comment on option 2 that I would like to make. This is not meant to be negative, but it is a clear observation. There is a feeling out there that option 2 will simplify everything. However, I do not believe that that will be the case. We have issues now regarding the distinction between capital and revenue. In the future we will see issues as to what an asset is, what a liability is and all those sorts of questions. They can give rise to the same amount of uncertainty and need for clarification that we have at present. But I do understand the reasons for option 2. I certainly support anything which can simplify the size of the tax act, the complexity of the tax act and the overall administration of the tax act.

CHAIR—Given the fact that option 2 does not have an equivalent tax system in any other country in the world, do you think there could be problems in terms of the timing of tax obligations or receipt of dividends, payments, royalties, withholding taxes and all those sorts of things and deductibility and associability as currently allowed under international agreements?

Mr Edney—Yes. I think that is certainly a risk. I think Mr Ralph has certainly highlighted the need to revisit double tax agreements in the light of option 2. In international business it is always a concern to ensure that you avoid potential for double taxation because of different tax systems and double tax agreements not being flexible enough to cope with the tax regimes that are in place. It is always a risk, I think, as a country moves forward with its overall tax law that needs to be checked with the international community and, I would think, through the OECD and other such organisations to ensure that foreign countries are going to respect the integrity of the type of system that is going to be introduced, for example, in this case in Australia.

CHAIR—Do you think Mr Ralph has done enough work to provide companies such as BHP with international affiliations with that assurance? Do you not think that assurance is necessary before any further progress is made?

Mr Edney—I think it is a necessary assurance. I think Mr Ralph would acknowledge that in the time that he had for preparing his report there was not an opportunity to cover all of those things. But as I said, Mr Ralph has highlighted the need for this to be addressed going forward. I think my earlier comments about getting changes in double tax agreements and the time it takes in these negotiations reflect the fact that this is not a simple exercise. To that extent, it does create pressure on the timing of option 2. As I indicated earlier, there may be a very strong case for deferring it while some of these things are all being properly checked.

CHAIR—So your earlier support for option 2 is now conditional on certain timing aspects about its introduction and also about those assurances received from all tax jurisdictions, or just the major tax jurisdictions?

Mr Edney—Ideally, one would always say all tax jurisdictions. I would think the key ones—and the business community might be able to work together to identify those—would certainly need to be checked off as part of this exercise. Yes, I would qualify my support in that context.

CHAIR—Do you see any advantage in the establishment of a global financial centre for corporations such as BHP?

Mr Edney—BHP is a user of financial services. BHP accesses capital markets around the world. They are not all in one place. Obviously, the major capital markets are in the US, but there are other locations, such as Europe and so on, where we also have programs. With the rating that BHP has, we want to have access to premium capital markets around the world. If Australia were able to establish itself as a major global financing centre where capital was available freely at attractive prices, that would be of tremendous interest to BHP. All of these things are dependent on the depth of the market, the ability of the Australian market to attract the depth that would really justify a number of global companies being able to operate through the market. This is a critical factor.

CHAIR—Mr Edney and Mr Mytton, thank you very much for the depth of information you have passed on in terms of certain critical areas regarding Australia's position with respect to the rest of the world, and particularly in terms of Australia becoming a global financial centre. Thank you very much for appearing via teleconference. We certainly appreciate your involvement today. I add that the committee would be pleased to receive any supplementary written advice on matters either raised or not raised in today’s teleconference. If you would not mind sending that to the secretariat, I am sure it will be gratefully received. Again, thank you very much.

Mr Edney—Thank you, Mr Chairman. I will arrange to send something probably in the following week. Thank you for your time.

[11.35 a.m.]

THORNTON, Mr Nicholas Robert, Chief Executive Officer, Australian Principals Centre Ltd

CHAIR—Mr Thornton, I think you are aware of the protection offered by parliamentary privilege. Thank you very much for the presentation that was given to us. We will be asking questions about your presentation and your submission. I invite you to make an opening statement.

Mr Thornton—My background is as a teacher, an educational administrator and as a curriculum developer. My particular interest in the issues that you are discussing revolves around education, particularly the complexity of superannuation matters and the future for the children of this country. I think it would be fair to say that it would be in their best interests for them to be able to access superannuation and understand it in the easiest possible way.

In addition, I was also the president of a teachers association. That teachers association was particularly interested in the training of business studies teachers. As you would be aware, business studies teachers often have the carriage of matters relating to superannuation, prudent financial management and other matters. I think it is fair to say that, from time to time, they have found themselves somewhat perplexed about issues of superannuation, which affects their capacity to convey those matters to their charges.

It seems to me that the superannuation guarantee levy has been a very positive development. I was in Singapore recently. I understand there is an even higher maximum contribution rate in Singapore. It seems to me that that does some things in terms of long-term planning for the economy. My observation about superannuation generally from a number of people I have worked with is that people put off making decisions about it because, quite frankly, there are issues that they do not understand and they are often concerned and afraid to seek advice, because they are not sure that they will understand that advice when they get it. From an educational point of view, it seems to me that we need to direct our attention to providing the best possible background about those matters to kids in schools.

I will make some background comments in relation to the teaching service in Australia, because I think that is relevant to the way in which this might be handled in the future. I do not know whether senators are aware of this, but in Victoria—and this is mirrored throughout Australia—the average age of secondary teachers is in the high 40s. While we value their experience significantly—and it is significant experience—I think there are some issues certainly about currency, particularly related to content. When one approaches issues concerning financial management and superannuation to the degree of complexity they have, there are obviously issues for the people who are conveying the message. Of course, not all of the message about superannuation, prudent financial management or financial literacy is conveyed by teachers; there is a broader range of places where people get information. But reflecting on my own experience as a teacher, that is where children come first into contact with these issues. Sometimes they form values about them and they make decisions about them that stay with them for a long time. That obviously will affect their participation in those programs.

The other thing that I think I should make reference to is the changing nature of the curriculum in schools. You may well have heard the phrase ‘the crowded curriculum’. I think there is an expectation that schools now address a much broader range of social issues than they previously have. As a result of that there is significant pressure on curriculum in all states of Australia to include more and more things.

To cite one example, in one of the key learning areas in school, that is, studies of society and the environment, a number of subject areas have been rolled together—history, geography and commerce or commerce-like subjects. While it has been a terrific integrated approach to the process, it has meant that, depending upon staffing arrangements in schools and particular state directions, some of the information that had previously been conveyed to children about superannuation, financial management and a whole range of those matters has slipped out of the curriculum. In some ways you might argue that it might be a good thing that it did slip out of the curriculum in the sense that the degree of complexity involved probably does not allow that information to be meaningfully conveyed to middle school kids, anyway. When I say ‘middle school’, I am talking about children in the age range 13 to 15.

Let me go back to my previous comment and say that that is a particularly formative age. Middle schooling is an important area where kids form values about a whole range of issues, including how they might save, how they might approach their work and how they might approach employment generally. So it is a crucial time to not only foster good literacy and numeracy skills, which is done earlier as well of course, but also introduce them to the concepts of lifelong learning and lifetime survival, which these days is essentially about, whether we like it or not, earning an income and putting sufficient resources aside to save for the future. So there has been some squeezing of the curriculum in that process and some of that key information, in my view, has slipped out. That is not to say that what has replaced the original, old commerce-type curriculum is not better—I think probably it is better—but we just have to be very cautious about not losing the plot in terms of what we can pass on.

We have a broader problem. This broader problem to some degree impacts on the way in which information about superannuation and consumer education about superannuation and financial matters is conveyed to kids. It is pretty clear that there is going to be a worldwide shortage of teachers in the foreseeable future. In the American and English situations, that is mirrored in the number of recruitment companies that are coming here and attempting to lure trained teachers away from Australia to work overseas. While I think that is a particularly good experience for those teachers, the end point of it is that in the information technology area and in the teaching of accounting and mathematics we will have a significant shortage.

That shortage will be in part contributed to by teachers going overseas to work for perhaps more attractive remuneration and other benefits, but it is also contributed to by the reduced number of tertiary students who decide that they will enter teacher training. Teacher training in this country is largely where we recruit our teachers from. The other end of the scale is that, because there are now significant incentives in some states for people to retire at 55, numbers of people are leaving the teaching service. They are some of the people I was talking about before who have expertise in conveying, both in the experiential sense and in a content sense, the sorts of issues that are important to kids about superannuation, financial management and like matters.

While that sounded a bit negative, I should say some things that I think reflect positively on some of the initiatives that are being implemented. The vocational education and training scheme, which is supported strongly by the Commonwealth under Dr Kemp and has been introduced into schools Australia wide, I think is a really positive sign. It provides experiential learning in an environment which allows kids to make first-hand contact with people who are in business and in a range of other settings and to understand how things work, understand the world of work and therefore understand the sorts of decisions that people make as employees. I think the Commonwealth's focus on literacy and numeracy—that is mirrored by the states—has also been very positive. There might be some arguments about the benchmarks but, nevertheless, it is a significant advance.

The other thing that is perhaps worth mentioning in this context is that in each state, and more particularly in Victoria, there is a significant teacher release to industry program. Those programs, of course, provide teachers with real, up-to-date, current experience that they can take back and convey to kids in their schools. The risk is that a number of teachers who go on these release programs do not come back. In terms of the broader economy that is probably not a bad thing, but we do have a problem of currency. I am not being critical of teachers at all—obviously, I am in the business of supporting them and their educational administrators—but I do think we have to acknowledge that, as we have moved so quickly into the technological age and we have moved so quickly into complexity around taxation and superannuation, it would be fair to say that teachers are experiencing some difficulties with the currency of their information.

In my briefing I was asked to make some comments about whether there were any education niche markets in relation to the Prime Minister's statement. I will say a couple of things about that. I think there are. It seems to me that there are some real niche markets for a global financial centre that Australia might seek to establish, particularly in the training area. I reckon there are some terrific opportunities in the area of information technology, if one observes in the last week the expansion of e-commerce, particularly around the Woolworths development for doing your supermarket shopping at home and a whole range of other things.

If we are not undersubscribed in trained people in that area, I am yet to be convinced. It seems to me that we really have a significant problem. Anecdotally I can say that I talk to a whole lot of people who have children who have gone through tertiary education. Those ones who are really good and are working in the IT area are leaving Australia in droves. They are leaving Australia in droves because, quite frankly, there are better opportunities overseas and they are remunerated at a higher rate. I am very concerned about the fact that in the longer term, in education particularly—mainstream schooling and otherwise—we will have and continue to have a significant shortage of information technology teachers.

Senator CONROY—I was recently in Silicon Valley. The shortage is not just in Australia. They described to me a situation of lacking IT people and they were sucking in IT people from all around the world. They were still massively short themselves, yet they were sucking everybody else's people in. So it is not a problem unique to Australia. It is just that the whole world does not have enough because of the massive leap we have taken, say, in the last five years.

Mr Thornton—I do not disagree. I guess I would be saying that it is a more acute difficulty here because we have a smaller market to draw from. Our capacity to draw from overseas, as opposed to the reverse, I think is a difficulty. Most children these days have their most contact with information technology, computer education or however you want to describe it now, early in primary school. Forty-eight per cent of Australian houses have a computer at home. The rate here in Canberra is 70 per cent. Transferring that initial learning children do at home and the information they get from their parents into a more structured process in public schooling requires traditional teaching models. The other side of it is that teachers are taking jobs in the information technology area for the very reason you are mentioning. It is more attractive. It is a different set of circumstances. They seldom return, unfortunately. As a result of that, we find ourselves, I think, in an area of critical shortage.

In terms of the training of information technology teachers and information technology personnel generally, I think there are some opportunities for Australia in doing some different sorts of training in parallel with tertiary institutions, addressing more specific needs as opposed to expecting that people will do three- and four-year degrees. When I look at the people I know who are in the business of designing web sites and e-commerce and a whole range of those sorts of things, I realise that not all of those people are significantly qualified but they are all significantly creative. So there needs to be, I think, a more flexible system of training. Maybe there is a niche market here for Australia to enter into training, to sell that training overseas and to establish markets overseas in that respect.

I think there is a really significant need for consumer education, particularly about superannuation and taxation. The recent GST initiatives—the training that has taken place for small business and for professional associations and others around that—have created some niche markets of their own and will continue to do that for some time. Those sorts of markets, I believe, can be created, too, by using Australian educational personnel who are very well regarded in the development of education packages. In the old format that was a printed package about insurance or a printed package about superannuation. In the new format that will be stuff that is on line. It would take an entirely different creative set of educational materials to deliver the message. I think there is a market there and, certainly, from our experience there is a market particularly in Asia for those sorts of materials. The issue is to get it up and get it running. It then becomes an issue of where you get the venture capital to make it work. Perhaps the Prime Minister's announcement in relation to this potential financial services centre is one of the things that might be considered.

Can I also say, and I do not claim great expertise in this, that it seems to me that this is a really good opportunity perhaps for us to look at the ways in which we might expand Asian studies—how we might enhance the present programs that exist. I know some teachers who have been part of that Asian studies program and it has been enormously beneficial. Their trips overseas and their experience in other cultural settings have made them much better teachers. There are opportunities, too, by expanding that program, I think, to create markets that might also make a contribution to the suggestion that the Prime Minister has made.

Lastly, I think there is an opportunity for us to expand a whole range of opportunities for teachers to have a broader experience in industry, in professional associations and places outside the school. All of the teachers that I have seen in my time as both a teacher and educational administrator who have worked outside schools have come back as better teachers. They do that because, quite frankly, they have broadened their experience and they have made themselves more current. Again, I would be happy to answer questions, if senators have them.

Senator CONROY—Mr Thornton has reinforced the very strong message that we are getting at the moment, so I have not really got any questions. Mr Thornton has described the situation very well.

CHAIR—Does the Australian Principals Centre Ltd have any formal links with the development in Redfern, Sydney, of the Technopark, which obviously involves at least three of the New South Wales universities and industries? Also, the schools are represented at a high level there through a former leading principal who has been given a central role in terms of the forward thinking that is going on in that centre.

Mr Thornton—If it is the technocentre that is associated with the Powerhouse Museum, then we do not have a formal link, but some experience. No, I am not aware of the Technopark.

CHAIR—No, the one that I am referring to is the old railway yards at Redfern—that centre there.

Mr Thornton—No, we do not.

CHAIR—The thrust essentially came from at least the three principal universities, industry and some time ago a former distinguished school principal was given a leading position on their executive.

Mr Thornton—I see.

CHAIR—It is all concerned about future developments in education and information technology and that sort of thing.

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

CHAIR—I thought that you might have some formal links through that.

Mr Thornton—No.

CHAIR—As you are aware, this loss of expertise, of course, is also an internal problem. Some states, of course, are losing these sorts of people to the principal centres such as Sydney. That is also a state problem. With respect to the knowledge currency, you point out the ageing of secondary teachers. That is interesting, because I remember perhaps two decades ago the problem was that there was not a generation difference between the senior school students and their teachers, which in itself was creating a problem at that time. So we have now gone to the other end of the spectrum, or moving very steadily to that. Is it the fact that the teaching profession has lagged in pay?

Mr Thornton—I think that it is a combination of things. The status of teaching is a significant issue in this country—the way in which teachers are regarded publicly. It is a really interesting process. If you talk to people —and I am a parent myself—they are often reluctant to criticise their child’s teacher, because they are really happy about the sort of job that their child’s teacher is doing, but they are sometimes more likely to be critical about teaching generally for a whole range of reasons. Historically, it goes back to the fact of long holidays—or purportedly long holidays—and a whole range of those things. I think that teaching has a real status problem. I am particularly proud of it myself. I have spent all of my life in it and I have seen enormous numbers of incredibly dedicated teachers. I think that we have lost people for a whole range of reasons. We have lost them as a result of rationalisation at various state levels, we have lost them from the point of view that comparative pay rates have not been maintained, and I think that we have lost them because—particularly latterly—of the intensity of the job, the difficulty of the job and the expectation that schools would take on more and more social problems.

We now have an ageing teaching force and we are recruiting fewer teachers at the bottom end. That will have to change because of the impending shortage. It is a really significant problem. The organisation of which I am the chief executive officer manages the induction program for new principals of schools for the Victorian Department of Education, Employment and Training. This year, we will manage eight of those programs for about 700 principals that have been replaced in the government system in Victoria alone. So you see, losing that expertise means that people who are perhaps less experienced are propelled more quickly through the ranks and then, behind that, you need to fill those positions with, hopefully, experienced teachers and certainly new teachers. We have got a lag effect. Because of the reduction in the number of teachers being trained and other matters in respect to universities and the way in which they have maintained their student/teacher numbers, we have now got, in my view, quite a significant problem at both ends of the profession.

CHAIR—Is there a significant number of parents moving students from school to school, depending on their perceived academic ability, to pursue certain outcomes? If you want to be an academic or a scientist, you go to a certain high school, or something like that?

Mr Thornton—Yes. Certainly, during the previous government in Victoria, the Kennett government, there were a series of schools established that were regarded as specialist music schools, information technology schools, or whatever. There was some movement of students in the government sector so that they could take advantage of those specialist programs. I think, more broadly, the issue perhaps is that there appears to have been a move from government schools to non-government schools. That is done for a range of different reasons. One of the reasons, certainly, is that some non-government schools clearly advertise themselves as schools for kids of high academic achievement and, in turn, while they are not guaranteeing it, they are indicating that there is perhaps a greater possibility of those students being able to achieve a higher tertiary entrance score and, therefore, pursue the profession that they wish to take up.

I do not see a wholesale transfer, although certainly some of the senior colleges in Victoria have attracted large numbers of students because of their size—the economy of scale and the equipment that they can provide and the programs that they can provide. It is a really significant issue at the other end where, particularly in isolated settings, diminishing numbers of students means that the curriculum declines as well, so the curriculum options are narrowed. In my view, in country Victoria that is a really significant issue for secondary school students. That has probably led to some drift from government schools to non-government schools, particularly where there are boarding facilities available.

CHAIR—The committee is aware of a concern regarding a lack of appropriate or widespread coordinated education in Asian studies in the schools and universities. Are you aware of that? What has been done to create some uniform standards?

Mr Thornton—I do not claim great expertise in the area; I can only make an observation in relation to Victoria. It seems to me that the work that the Asian Studies Foundation and other organisations have done in Victoria has been very good. I think perhaps, if anything, it is about the quantum of work that they can possibly do. Of course, that is related to their resources. On a national basis, if that has been a state initiative, then almost inevitably coordination is difficult. I think that is probably the only reasonable comment that I can make.

CHAIR—Speaking as a superannuation and financial services committee of the parliament, can I ask you this question: how do you rate the level of knowledge of superannuation and investment of your members and teachers generally and also in terms of the students' understanding, and what has been done to lift the levels?

Mr Thornton—Let me deal with my professional colleagues for a start. My background is in the government system. In the days when I joined the government teaching service—and you referred to those before when talking about the small gap between the age of teachers and their students—my experience was that superannuation was not an issue for teachers in the government sector and to some degree it is not now. There is a government superannuation scheme and I think people accepted that that is a significant scheme and that, if they stayed for their work career in teaching, they would be well provided for. There have been some amendments to the system in Victoria. One of those amendments has led to a process where there is a significant incentive for teachers to retire the week before their 55th birthday because there is an additional cash benefit in the old scheme. That is part of the reason why large numbers of people have been leaving.

I have to be honest and say that, if you talk to most teachers, I think their understanding of superannuation matters would be cursory at best. I think there is a really significant difficulty both at adult level and therefore in turn with children because of that. I ascribe that largely to the complexity of the superannuation legislation and the capacity of the industry to explain that in relatively simple language to the average person. I suspect that part of the difficulty with the process—and this is a personal comment, not a comment on behalf of my organisation—is that people go and seek advice and they are conveyed information about particular products, and that is not information about superannuation. It seems to me it is a much broader process. I think we have a very significant problem both for adults and, therefore, for kids because of the difficulty of conveying the information. That is not to say that there have not been some good initiatives to deal with it, but as the areas become more complex, the difficulty of conveying the information has become more significant.

CHAIR—Given the importance of saving and the ageing of the Australian population, do you not think that perhaps there is a role for these issues to be built into business curriculums in the schools?

Mr Thornton—Certainly I agree. If we think of it in terms of financial literacy, it ought to be the diet of all children in schools. It is probably best dealt with by people who have training in the area, but that is not exclusive. I think it is absolutely crucial that, if we are to encourage people to save a greater amount than they do—and let us is face it: Australians do not have a great reputation for that—then we need to make some concerted efforts to make sure that we start that process as early as we can. That is not to say that some really good things about financial literacy are not done in schools, but I think it is time to rethink a whole range of those issues and put a focus on that. Maybe we need to reconfigure the way we do it altogether. It might need a quite different approach than the approach that has been taken, which has been about conveying a lot of information when, in fact, actually what we need to do in the process is skill kids up about where to look and how to find out. As soon as people come up against the wall in terms of understanding, they say, 'That is something I can put off. My employer takes out seven per cent, eight per cent or whatever. I don't need to worry.' With respect, a lot more education, understanding and personal financial decision making needs to take place.

CHAIR—Thank you very much. We very much appreciate your appearing before the committee today. Your information has been most useful.

Proceedings suspended from 12.04 p.m. to 1.37 p.m.

HARRISON, Dr David, Special Adviser, Emissions Trading, Australian Greenhouse Office

RICHARDS, Dr Gary Phillip, Manager, National Carbon Accounting System, Australian Greenhouse Office

MORAN, Mr Stephen, Director, Climate Change Section, Department of Foreign Affairs and Trade

CHAIR—We will now hear from the emissions trading team from the Australian Greenhouse Office.

Dr Harrison—We invited the Department of Foreign Affairs and Trade to accompany us here because the Australian Greenhouse Office has carriage of domestic issues in relation to emissions trading, but the Department of Foreign Affairs and Trade has carriage of international issues, and we assumed that the discussion would cross the border between domestic and international issues.

CHAIR—Your office is a relatively new office, isn’t it?

Dr Harrison—That is right. We were established in April 1998. The establishment was first announced in the Prime Minister's statement *Safeguarding the future* in November 1997.

CHAIR—Would you like to make an opening statement before we go to questions?

Dr Harrison—Certainly.

Senator HOGG—Before Dr Harrison starts, can I ask: if one is responsible for the domestic side and the other is responsible for the international side, how do you dovetail together? Will that become evident?

Dr Harrison—I think that will probably become evident through the questions.

Senator HOGG—What about in respect of the submissions?

Dr Harrison—We worked closely—

Senator HOGG—I am not doubting that you did work closely. I am just trying to establish the linkage. If one looks at the international scene and one looks at the domestic scene—and this might be oversimplifying it—

Dr Harrison—The Australian Greenhouse Office has carriage over domestic policy development with regard to greenhouse policies generally and emissions trading in particular. I guess you could say that we take as our framework what the international situation is, although, of course, we may try to influence that framework to the extent that we see it would be useful for domestic policy development purposes. But in terms of the international negotiations and the authoritative voice on what is happening internationally, that would be the Department of Foreign Affairs and Trade.

From the perspective of your inquiry, the aspect of our work that would be of most interest would be the incorporation of credits for carbon sequestration into the domestic emissions trading system and the possibilities that that would give rise to for the development of trading activity in Australia, and specifically I have in mind the moves taken by the Sydney Futures Exchange to position itself as a worldwide market in carbon credits. I am aware, of course, that they are not the only ones. There are other financial services and people out there also trying to establish a position for themselves.

To put all of that in context, I could ask my colleague from the Department of Foreign Affairs and Trade to speak about the international environment. However, from our point of view, the rules for an international emissions trading scheme have not yet been decided. The Australian government has not yet taken a decision to ratify the Kyoto protocol. Such a decision would depend on the outcome of negotiations still under way in relation to emissions trading and other areas as well. There is worldwide uncertainty as to exactly what the international emissions trading framework would be—that is, its rules and guidelines. In the absence of those international rules being finally agreed at this time, the Australian government has not taken any decisions on whether or not it would wish to implement an emissions trading scheme domestically.

CHAIR—Could that be achieved separately?

Dr Harrison—It could be. There are two separate issues there. Once an international emissions trading scheme is established, would we then wish to implement policy in Australia in the form of a national emissions trading scheme which dovetailed as well as possible into that international trading scheme? If there was not an international emissions trading scheme in existence but we still wished to meet the Kyoto protocol targets for emissions in Australia, then a national emissions trading scheme could potentially be considered in that context as a cost-effective way of meeting our emissions commitment regardless of the absence of an international trading scheme.

Senator HOGG—Pardon my ignorance in this area, but who would set up the guidelines? You are talking about a set of guidelines.

Dr Harrison—The international guidelines are subject to negotiation in the United Nations Framework Convention on Climate Change.

Senator HOGG—I am with you now.

Dr Harrison—If you want a deeper answer, I could hand over to my colleague.

Senator HOGG—No, that is fine.

Dr Harrison—Until we know what the international guidelines are, it is difficult for the government to make a decision as to what its attitude would be towards ratification of the protocol, because there are still a number of unresolved issues under the Kyoto protocol. The outcome of negotiations on those issues would greatly affect the costs to Australia of complying with that protocol, and a decision would have to be taken in that context. Until the international rules are clearer, it is difficult for governments to start making commitments in terms of deciding how they would implement domestic policy within a framework that we do not yet know.

I might also point out that, while various countries have taken various measures to meet their Kyoto commitments—indeed, Australia has taken various domestic greenhouse policy measures to move towards meeting our commitments—I am not aware of any country in the world where the government is willing to implement policies that commit itself to deliver part of its assigned amount, its allowable amount of emissions, to some other party at this time, although various project related discussions may be under way in various parts of the world. I might explain our assigned amount. In Australia's case, it is 108 per cent. For other industrial countries signed up to annex B of the Kyoto Protocol, the average would be 95 per cent of 1990 base emissions. The fact that none of those governments would be willing to commit to hand over parts of that assigned amount to other players for trading purposes at this time means that there are no officially recognised assigned amount units available on the market today.

The next best thing to an officially recognised assigned amount unit is that, in addition to our assigned amount—the 108 per cent—we can sequester carbon in Kyoto compliant forests, and any sequestration of carbon in those forests, if you like, provides an offset to an emission. So an investor investing in a forest today could have a reasonable degree of security that the carbon that was sequestered in the commitment period—2008-12—would be his; that is, would belong to the investor. What would be uncertain would be precisely what the definition of a forest is, what the measurement guidelines for measuring the carbon in the forests would be and various definitional and technical issues—measurement issues—of that nature.

In the absence of any officially recognised credits anywhere in the world, access to ownership of a forest investment in a Kyoto forest has a reasonably good likelihood of eventually being recognised. It is on that basis that the Sydney Futures Exchange in particular has seen a market opportunity because, in the absence of officially recognised credits anywhere, one of the best bets in the world is sitting down in Australia in the form of sequestration opportunities in an industrial country. Most other industrial countries would not have the forest sequestration potential that Australia would have. So we do have potential supply.

If a market is established, it would attract capital into the development of our forests, which would increase our carbon sequestration ability or performance and, in effect, would cause the creation of a greater number of credits which could be used for trading purposes. So in that context, the Sydney Futures Exchange and others have seen that potential and are working to develop a market. You might comment that they are, in effect, positioning themselves in a market the rules for which as yet are unknown. But in all probability, if players do not position themselves in that market now, it will be too late when the rules are eventually known. So it is a useful activity to start positioning now.

CHAIR—A regulator has not been appointed at this point, has he?

Dr Harrison—No, there is no regulator for a market.

CHAIR—How are you trying to enhance the acceptance of this concept through your office?

Dr Harrison—I point out that as yet the Australian government has not made any decisions on whether it would wish to implement an emissions trading system in Australia, but we have been doing policy development work. We put out a series of four discussion papers raising policy issues that would be involved in the question of whether or not to establish a national emissions trading system and how that trading system might operate. One of those four discussion papers is called ‘Crediting the Carbon’, which goes to the issues about forest sequestration that I have touched on so far.

CHAIR—What sort of model do you prefer? For example, various traders or as a single trading floor?

Dr Harrison—I think that is the sort of issue that should be sorted out in private markets rather than governments making those sorts of decisions. Ultimately there is no doubt room for both types of activity.

CHAIR—But not initially? You said ultimately there has to be room for both types of activity.

Dr Harrison—I suppose initially, before you can have one trading floor, you need a highly standardised product trading at very large volumes. Traditionally, markets develop on a sort of individual contract basis until volumes rise to a point—

CHAIR—So that would involve accreditation. Who would do that accreditation? Would you or the regulator do that?

Dr Harrison—They are issues that will be determined when we have a clearer view of how this would be implemented.

CHAIR—I see.

Dr Harrison—I might say that within the framework of uncertainty that exists at the moment we are working cooperatively with the Sydney Futures Exchange and other interested parties, such as New South Wales Forests, to develop measurement standards and to do that on a cost-effective basis. It is important to recognise that there are quite significant transaction costs in going out and measuring the amount of carbon in any given piece of land. So the more you can get that stylised into acceptance of a model of carbon growth so that you can estimate on a model basis very economically how much carbon is likely to be sequestered and you can verify appropriately that the models are working properly and so forth, unless you can get transaction costs of measurement and verification down to reasonable levels, then the sheer transaction costs in going out and measuring the carbon would represent a danger to the market such that the market might never get off the ground, et cetera.

CHAIR—How are the offsets for the generation of wind power or water power for the purpose of electricity generation measured?

Dr Harrison—That is a more difficult one. That goes to the question of national governments committing units of their assigned amount that I referred to earlier to a particular project. Once you had an emissions trading system up and running, then a renewable project, such as hydro or whatever, would get a cost advantage in the market because its coal competitors would have to pay the permit price for their emissions, whereas hydro would not have emissions. So hydro would therefore get the benefit in the marketplace of the improved relative price.

In the period until we actually have an emissions trading system operating, there becomes a question of what form of recognition could you give to hydro. To give them recognition would basically imply that you are taking a baseline of emissions and saying that they had saved emissions from some sort of baseline. It is not at all clear at this point how the government would be willing to divide up baselines amongst the various competing projects in the economy. Since there is no guidance at this point as to how government would allocate baselines, it is very difficult to take a view on how many emission reduction units you would be entitled to.

When I say the government has not decided how to allocate baselines, it is not a matter of an individual project working out that it can save 20 tonnes relative to a coal-fired plant and go ahead on that basis, because if the government recognised all of the emissions that were being put out in the economy on a business-as-usual basis, they would be recognising baselines of something like 140 per cent of 1990 emissions, whereas our assigned amount—our target under the Kyoto protocol—is 108 per cent. Therefore, the mathematics are such that the government does not have enough assigned amount to give to every enterprise in the country the baseline that it would calculate as its fair and justifiable baseline.

CHAIR—So a difference between 140 and 108?

Dr Harrison—Something of that magnitude.

CHAIR—Does it apply only to new operations or to existing operations? Do you get any credits for existing hydro schemes or wind power, or does it just apply to new developments in that area? Have you got a commencement date?

Dr Harrison—No. The government has not taken any decision yet on whether it would introduce an emissions trading scheme at all. In terms of the commencement date, the commencement of the Kyoto protocol—the first commitment period, which is the period when we first have a restriction on our emissions, assuming ratification of the Kyoto protocol—the commencement date of the Kyoto protocol first commitment period is 1 January 2008.

CHAIR—As part of that, do you take into account the improved emissions systems, exhaust systems for petrol and diesel vehicles?

Dr Harrison—Any improvement in our emissions profile reflects in our ability to meet our target but, in terms of allocating baselines that people can then claim credits against, any decisions in that area are totally up in the air. I might point out that imposing emissions restrictions within the economy would yield a situation where some people gained and others lost. Clearly, the Sydney Futures Exchange sees themselves as a potential gainer; heavy emitting industries would see themselves as a potential loser. Imposing emissions constraint would raise the price of fuel potentially. When I say ‘fuel’, that includes coal and electricity as well as petrol. So there would clearly be issues there for the government to decide how it wanted to put together a package to make the introduction attractive to both industry and households. So while the national baseline is 108 per cent, it is not at all clear that the government would be willing to assign all of that baseline to industry as opposed, for example, to households who might be faced with higher energy costs.

Senator HOGG—I must say that I admire the framework within which you have got to operate. You do not seem to have a terrible number of guidelines and you seem to be floating around. What sort of assistance are you giving directly to the Sydney Futures? Any as such?

Dr Harrison—Yes. Obviously, in the absence of having any real guidelines—

Senator HOGG—I do not know how you operate.

Dr Harrison—We cannot give them any official recognition, but we participate with the Sydney Futures Exchange. We make available to them the output of our research in terms of better measurement methodologies to reduce the cost of measurement, for example. My colleague Gary Richards is actually on the Carbon Trading Market Advisory Committee of the Sydney Futures Exchange, which is an advisory committee working on those types of issues, so I might hand over to Gary to explain the type of technical support that we are providing in the background.

Dr Richards—I think the greatest difficulties that the market has faced to date are almost not in the trade mechanisms but in the measurement and verification—the certainty of product—both in the actual measurement and the projections of standing stocks into the future. Largely, the trials that have been run to date show that the measurement costs essentially at the possible rates of carbon trade at the moment would substantially eat into that.

We are working on a program which is really at the world leading edge in terms of techniques and technologies for efficient measurement. Faced with a continent as large as ours, the issues for us in gaining those efficiencies on a national account are much more pressing, I suppose, than the more intensively managed European continents, which also have a longer history of measurement. So we have really committed a lot of resources. I think that there are some 230 scientists working collaboratively with us—that is in academic institutions, the CSIRO and the private sector. We at the moment try to put as much of that research and development on the ground as quickly as possible. So, for instance, in terms of the establishment and verification of the mechanisms that will be used by Sydney Futures, we are working on some case studies with their first proposed grower or seller of carbon in New South Wales state forests to actually apply measurement techniques and projection techniques, which will be the basis, I suppose, that the Sydney Futures Exchange can take forward to buyers as the certainty of measurement and to prove those techniques. They will be incorporated into their guidelines as standard methodologies to be applied for anybody operating through the exchange.

Senator HOGG—Can I put this to you: whoever owns the intellectual property in this area in the longer term is going to control the futures market. Is that what it boils down to?

Dr Richards—Intellectual property is a very significant issue. We are faced with a major national effort, which is developing world leadership but also needing to establish Australia's position that, within the negotiating framework, it is able to account for these activities as sequestering events. A lot of the international scientific community has raised some doubt about the measurement of uncertainties in these systems. So in fact we try to put our intellectual property into the public domain and have it taken up by markets and the private sector and adopted internationally as a reinforcement of Australia's national position. So I guess we take it rather as a community service obligation. That comes through very strongly in our partnering with organisations like CSIRO and a lot of the state governments—that there is actually a large public interest element in our scientific development. So to us, actually having adoption is probably more important than commercialisation.

Senator HOGG—Won't the commercialisation be important in the longer term in relation to where the trading in the carbon credits will take place?

Dr Richards—We tend to put out product which provides guidelines. I think the real market is actually in the service. So most people who are looking to trade in the products that are dependent on our intellectual property, if you like, need people in regions to apply those methodologies. Obviously, as a small government group, that is not in our interest. So in relation to the commercialisation of the actual product, once we internationally promote the concepts we have applied and proof the nature of the science through open verification, that intellectual property would be reasonably readily re-creatable, and then the market would go on and service that. So what we are finding is that, by putting these products out, service industries are starting to grow around standardised product. I think the skills base is growing, as is the understanding by the common adoption, as opposed to a sale of a technique as a product.

Senator HOGG—How will this help us to become, if not the global centre, one of the global centres in this area? Will it?

Dr Richards—I believe so in terms of measurement technologies. We work within a reasonably small international scientific community dealing with these issues. I think Australia now has a well-established position of world leadership, which is very significant within the negotiating positions that we have, around the setting of rules and guidelines. A notional cost we were facing—verification of matters under the protocol—could lie in the adoption of very fine-scale systems more suited to European countries than broad continents such as Australia. So our leadership and proofing of those sciences and the influence they bear over the development of international guidelines are quite important.

Within the market context, I think having a well understood set of proven techniques will assist in market confidence. I think Sydney Futures is really looking for us to work on these case studies as evidence to buyers that what they are buying does really exist and that there can be confidence in the methodologies and measurement.

Senator HOGG—Could Mr Moran enlighten me as to what role DFAT has in all of this?

Mr Moran—I would be very happy to. As Mr Harrison mentioned, we are responsible for prosecuting Australia's position in the international negotiations, including on international emissions trading. International emissions trading is part of the Kyoto protocol, which was agreed in December 1997, but the rules and modalities for the way the trading would take place are not elaborated. That is the case with some other market mechanisms in the protocol. So the focus of attention in respect of emissions trading now is on negotiating the international rules and modalities for that to take place.

Australia, along with some like-minded countries, is proposing that it would operate much the same way as other international financial and commodity markets—that is, mainly within and between the private sector. Ultimately, we see international emissions trading as being the main mechanism for transferring the carbon credits, the units of assigned amount that Dr Harrison referred to, between countries and thereby minimising the costs of reaching our target that we will, if we ratify the protocol, have to meet in that commitment period.

Something which is pertinent to what we have already heard from Dr Harrison is that in the international negotiations there are some proposals on the table from other parties to restrict the amount of trading that can take place between countries. Particularly, the European Union wants to impose a cap or a limit on the amount of trade that a country can use to help meet its target and thereby force more of the emissions reduction task on purely domestic action. The European Union, though, does have its own internal trading arrangement which is part of the protocol, which allows its emissions between its member countries to be traded and exchanged—it is a collective meeting of the target in that way.

Australia and its like-minded allies—the United States, Canada; there are eight other countries in this group—argue that there should not be a quantitative limit to the mechanisms and all parties with emissions commitments should be able to use emissions trading and the other mechanisms to help meet their targets. Underlying our approach is the minimisation of the international price of carbon, where it interacts with the kinds of domestic markets that have been talked about. Restrictions on or variations of the amount that can be traded—very rigorous eligibility requirements on who can trade, for example—can affect the volume of the market, the turnover of the market. It may not be the kind of commodity market that we envisage but may be more like issuing cab licences—the ‘buying a house’ sort of market. We are investing a fair bit of effort into trying to get these rules as liberal as possible.

Senator HOGG—Are the international rules being put together being driven by the likes of the various futures exchanges that are looking at how the credits can be traded or is the international organisation establishing the rules and saying to the various futures exchanges, ‘These are the rules we are developing and these are the rules you will have to abide by’? What is the creative tension there?

Mr Moran—I would say that the financial institutions are not having a big input into the national positions of other countries in terms of developing these rules. Also, I should stress that the negotiations on the rules for emissions trading are but one part of a much broader negotiation involving other mechanisms—involving the measurement of sequestration, rules for measuring and accounting for sinks, the carbon sequestration that Mr Harrison referred to before and assistance for developing countries. It is a complex and very broad negotiation.

So there is some flow-over in countries' positions on the mechanisms and on emissions trading based on what they are trying to achieve in other areas. The developing countries have proposed a lot of restrictions on emissions trading, but their really high priority is to get extra financial and technology transfers. The European Union's position on restricting emissions trading—and we believe it is hypocritical to a degree, because it has its own internal trading regime—is linked to some other concerns about the amount of credits that could be available from Russia due to the collapse or significant decline in its economy since 1990. There are some concerns there that have fed into their position. Perhaps if those concerns could be addressed through other means we could still get the unrestricted open market system for international emissions trading that we are seeking.

CHAIR—From which countries are you receiving the greatest cooperation? Who are the world leaders in this area? From where in the international community are you getting most of your support?

Mr Moran—In relation to the actual negotiations?

CHAIR—Carbon trading?

Mr Moran—Australia's position on emissions trading is shared by eight other countries. They are Canada, Iceland, Japan, New Zealand, Norway, Russia, the Ukraine and the United States. It is a group of developed countries outside the European Union, Russia and the Ukraine.

CHAIR—Thank you very much for appearing before the committee this afternoon. This is a new topic and we wish you well.

[2.15 p.m.]

DAVIS, Mr Darren Aubrey, National Policy Adviser, Securities Institute of Australia

LE COUTEUR, Ms Penelope Ann, Managing Director, Securities Institute of Australia

CHAIR—I note that Mr Darren Davis is appearing as the national policy adviser for the institute. I think the committee knows Mr Darren Davis as a senior executive officer with APRA. He is appearing in a different capacity this afternoon. We also welcome Ms Penny Le Couteur. I invite you to make an opening statement.

Ms Le Couteur—Firstly, I thank you for the opportunity to speak to the committee this afternoon. I would like to tell you a little about the Securities Institute before I start talking about the particular issues that you are addressing. We are a professional association broadly reflecting the financial markets and financial services industries, with about 10,000 members. We also have a major role as an industry educator, with about 15,000 students studying with us. We are already global in that we have students in 59 countries and we also offer education at all levels, from open entry, which anybody can enrol in, to a fully accredited masters program, of which we are extremely proud. Indeed, we are the largest fully accredited postgraduate business school in Australia. The numbers in our graduate programs are significantly ahead of the numbers in the business schools at the universities. That is something about who we are and what we do by way of background for you.

In relation to your terms of reference concerning Australia as a global financial centre, the area that I would like to address is the availability of a skilled work force. A number of issues are relevant to that question. The first one is: what do they need to be skilled in? Within Australia we offer a Graduate Diploma in Applied Finance and Investment, which is pretty much the industry standard for people working in wholesale financial markets. It is pretty much an accepted course that people do. That is fine. It is offered in Australia and, as I said, we have students in many countries doing that. But 80 per cent of the content that people need to know working in financial markets is global and about 20 per cent is local. A mix of global content and local content is needed, with the local content including things such as tax and regulations, which vary within different countries. Some market practices are different in different countries. Any examination of what people need to be skilled in needs to address both of those different dynamics.

In that context, I am associated closely with the launch of a new global qualification called the Certified International Investment Analyst, which recognises the need for common international learning and the need also for national learning and offers a set of common exams that people can do around the world for the common part and specific local exams for national components. That is particularly relevant when we come to think about how we get the volume of people that we need. I will talk about that in a moment.

We need also to know that people are skilled and have the knowledge they need to operate. We are putting together and have an assessment service that numbers of major financial institutions use to test the competency of their people against the kinds of things that they need for licensing or operating in the markets that we have. It is extremely useful for financial institutions to use that as a test. They can then train people in areas that they are underskilled in.

The first question was: what do people need to be skilled in? The second question is: do we have enough people with the right sorts of skills? I find that a difficult question to answer in absolute terms, but I can say that we have the capability to train very large volumes of people, as we do already. We are set up to do that. It is something that we do pretty well. We are also investing very heavily in technology to facilitate and improve the global delivery of our programs. At the moment the majority of our distance education is based on paper. We are addressing a range of other sorts of delivery technologies so that we can be more relevant and interactive for students who are not sitting in the major centres where we offer lectures.

The Certified International Investment Analyst qualification that I mentioned a moment ago allows a degree of flexibility that we have not seen before. People can take that qualification and, if they take it in Australia, they will do the Australian national exam. If, for example, you want to have a financial institution that operates across back offices for countries in the region, then they need only do the local national exam for whatever other countries that back office would cover and they can then be fully qualified for all of those different countries, rather than having to do the equivalent of our graduate diploma. We can train people offshore anywhere in the world through the CIIA qualification. They can add whatever national exam components they need in order to be fully qualified to work globally. As I said, Australia is a very active participant in this qualification, which is quite exciting.

The next question that I think you need to address is: how fast can we build the pool of talent? If we find we do not have enough, how quickly can we get it in? In terms of investment cycles and people looking to Australia as a global financial centre, this might be looked at. Another issue—and this is an issue with our own students in Australia—is that, regardless of what they are being trained for, flexible program delivery is extremely important. Our students are extremely time poor and so we offer them flexibility as to the time that they spend, as to the location that they study in, as to whether they study face to face or by distance education or by various other means, whether they do it by compressed workshops and so on.

Another thing that is important in building a skilled work force very quickly is that you need education that is immediately useful. One of the things that really distinguishes the sorts of industry based training that we do at the Securities Institute is that it draws on the content and the knowledge of our members who are actually working in the industry. At the institute we do not have on staff any lecturers. We do not have on staff any people who claim to be experts in the financial markets. We, of course, are educated in the financial markets, but the instant you leave those markets you are out of date.

So we work with people who work in the markets every day to prepare our content to lecture to our students, to answer questions, and to mark exams and assignments and that means that students find from our courses that immediately they can learn and use tomorrow what they learnt today, That is extremely useful to them—that they can use it. It is not then a question of, ‘Well, I’ve got the concept. Now, how is it actually used in the marketplace?’ We teach them both, which is terrific. We also have, by dint of the nature of the market that we work in, a capability, drawing on those practitioners and members, to very quickly tailor the kinds of courses that we offer or develop new ones indeed should there be a new development in the market.

The other area that I would like to address briefly is our role in the region. There is a federation called the Australian Securities Analysts Federation, which is a federation of bodies like the Securities Institute across the region, of which we are an active member. We chair the education committee of that body and also in that capacity we take a leadership role. We also, as our own organisation, take a leadership role working with the ASAF member societies in various countries or with official bodies, as the case may be. We have a joint venture in Malaysia which has established a similar sort of body to our own. We also work in Hong Kong, Singapore, Thailand, Indonesia, New Zealand, India, with the Asian Development Bank and a range of Pacific countries as well. So we are quite well integrated in the region and we see it as being very important to do so.

The only other comment that I would make before concluding these remarks is that our approach has been really very successful compared to like bodies around the world—and we are in touch with them all through various international arrangements. Our penetration of our market and the size of both our membership and our student base relative to the market is quite dramatically higher than anything else we see anywhere in the world, which I must say we are extremely proud of. So those are my remarks. I am happy to answer questions.

CHAIR—In terms of Australia becoming a global financial services centre, how do you view that and could you outline some constraints that might prevent Australia from achieving that goal?

Ms Le Couteur—It depends what our objective is. If our objective is to have transactions based here or offices based here, then we have every opportunity. The advantages that are generally spoken of about Australia are true in this area. In my experience, there are many things that we have going for us. As technology becomes more and more pervasive, distance is not an issue. In my experience, we are well respected throughout the world for the quality and depth of our markets. In the international activities that I undertake, we have various discussions about the need for credible markets to be involved in the qualifications and so on that we are talking about—that is, the development of them and the candidates for them. Australia is always seen as an extremely credible market in those contexts. So I do not see great constraint; I see great opportunity.

CHAIR—It being a credible market might be one thing, but how do we compete with established places such as Silicon Valley, London, et cetera? How are we going to achieve this in terms of competing with those established places?

Ms Le Couteur—The time zone issue is extremely important. From our perspective from our education in Asia, the time zone is important. It is also my experience that through our exposure to Asia we have a better understanding of how those people think and the cultural sensitivities required to work in Asia that our colleagues in Europe and other parts of the world simply do not have an appreciation of. I think that puts us in good stead as well.

CHAIR—Why Australia? Why not Singapore? Why not Hong Kong? Why not Japan? They also have those same time zone advantages.

Senator HOGG—Particularly when we are not seen as being part of Asia.

Ms Le Couteur—Indeed. We have that discussion within our own federations as well. To an extent, that is outside my area of expertise. I see us as being a very credible market with the capability to build a skilled work force. As to where companies choose to put their operations, that is a little outside our control.

CHAIR—Do you see us developing a global sense for all things, or do you think we should primarily aim to capture things associated with Asia?

Ms Le Couteur—I think we have to think globally. There are specific reasons why we think Asia which are more about time zone and cultural understanding than anything else. If we only think Asia, we have lost the main game. It is not about regionalisation; it is about globalisation.

Senator HOGG—Firstly, I was taken by your certified investment analyst. It is a most unfortunate choice, I thought—CIA.

Ms Le Couteur—It is CIIA, I might say. It is Certified International Investment Analyst. Yes, you are quite right. We have quite a bit of debate about that.

Senator HOGG—Yes. I was going to say if it is CIA, what would be the KGB?

Ms Le Couteur—God only knows.

Senator HOGG—Is that an internationally recognised accreditation? What standing does it have in terms of international educational facilities? Is it an internal qualification more than an externally recognised qualification?

Ms Le Couteur—It was only launched globally last month and the first examinations will be held in March next year. It is an examination system rather than an education system, if you understand the difference. People can do their learning and education in whatever way they choose.

Senator HOGG—So it is not a lecture course as such?

Ms Le Couteur—It is not a lecture course, no. It is simply an examination. It is a qualification which you attain by doing a range of examinations. How you get the learning that allows you to pass those examinations is a slightly different step. That is one of the differences between a professional qualification and an academic qualification. Whereas an academic qualification is about the process of learning, this is about achieving a standard which is measured by an examination.

Senator HOGG—Do the academic sites offer something comparable to what your organisation offers?

Ms Le Couteur—No, they do not, because ours is global and it is professionally based. What the Securities Institute offers is professionally and industry based as opposed to academically based.

Senator HOGG—Am I to understand that you offer this certified investment analyst on a global basis out of Australia?

Ms Le Couteur—It is offered in conjunction with like bodies around the world. There is a board that comprises Australia, Japan, the Asian region which is run out of Thailand, Switzerland, Germany, France, Spain, Italy, Brazil and the UK.

Senator HOGG—You have painted a very good picture of how your organisation and like organisations operate worldwide. Why then would Australia become a centre for global services rather than any of those other places that you have mentioned? I would imagine that they are all trying to bring about the same skills, the same level of expertise, the same level of education and the same intensity in the marketplace as we are. What would force Australia to be a preferred spot rather than those others?

Ms Le Couteur—I cannot really answer that other than to say that our role, as we see it, is to support the industry and to enable it to have a skilled work force that reflects the global nature of the world and to not constrain any of Australia's opportunities through lack of a skilled work force. We are quite happy to train and provide a skilled work force anywhere in the region because we see that as a good thing for us to do. I believe that by our leadership in this area we assist in people choosing Australia.

Mr Davis—A strong economy and low political risk are also important factors in it becoming a global financial centre. So there are some broader issues as well.

Senator HOGG—Do you see the likes of the Internet and e-commerce necessarily swamping what you are doing and eventually people getting their information and what they have to learn from cyberspace? Is it possible that they will not necessarily operate out of Sydney, Hong Kong or somewhere else; they will operate in cyberspace?

Ms Le Couteur—I think that is entirely possible. As I said, I think time zones are important. If we are going to have 24-hour markets, that is fine, but people do not make the best decisions at 3 o'clock in the morning their time. That is an important factor that has been recognised by financial institutions. Cyberspace is an opportunity for us as well as a challenge. We are heavily investing in education through cyberspace. It allows us to recreate in a virtual way the real value added experience that people get through face to face interaction with practitioners. Others have that opportunity as well and it is a competitive market, but we certainly intend to be there.

Senator HOGG—I have no further questions.

CHAIR—Ms Le Couteur and Mr Davis, thank you for appearing before the committee this afternoon.

Ms Le Couteur—Thank you.

Proceedings suspended from 2.33 p.m. to 2.43 p.m.

COMLEY, Mr Blair Robert, General Manager, Indirect Tax Division, Department of the Treasury

PAINE, Mr Bruce, General Manager, Business Entities and International Tax Division, Department of the Treasury

POTTS, Mr Gary Ronald, Executive Director, Markets Group, Department of the Treasury

WILLCOCK, Mr Michael, General Manager, Financial Markets Division, Department of the Treasury

KILLALY, Mr James Michael, Deputy Commissioner, Large Business and International, Australian Taxation Office

HOSKING, Mr Leslie Victor, Chief Executive Officer, AXISS Australia

CHAIR—Mr Potts, do you or any of your colleagues wish to make an opening statement?

Mr Potts—I do not think so, Mr Chairman. We have provided a submission to the committee. I think when we met with you informally we also provided an opening statement, which we would be happy to table, if you wish. I think at this stage we would be happy to respond to any questions or issues the committee wishes to raise.

CHAIR—Thank you, Mr Potts. Mr Hosking, have you got any updates since we last spoke with you?

Mr Hosking—I have just today submitted a letter which responds to some of the questions that were raised at the last committee meeting, Mr Chairman.

CHAIR—Thank you. Senator Conroy?

Senator CONROY—The Treasurer recently was in Paris attending an OECD function. I understand a report was released called *Towards global tax cooperation* and it identified potential harmful taxation practices—'harmful' in the definition that would have been used over there—and it identified Australia and its offshore banking units legislation as a potential area. Is that correct?

Mr Paine—That is correct.

Senator CONROY—What happens next? What is the process, because we are a signatory to it and there are some fairly substantial penalties if we are, at the end of whatever process, found to be in breach. We could even be listed as a tax haven in there with the Bermudas. I do not think that there is a chance that we would end up with Bermuda and the Galapagos Islands, et cetera. What is the process now? A report has identified our OBU legislation. What happens next?

Mr Paine—No, I think that it is quite misleading to paint Australia as a tax haven. The process to date has been that, since about 1997, the OECD was looking at potentially harmful tax regimes within member countries. It was drawing a distinction between them and tax havens as classically understood. In, I think, January 1998, the OECD endorsed a report. It is not a legally binding agreement in any way. A potentially harmful tax regime within member countries have four distinguishing features: it has to have a low tax rate and then at least one of the other features, and the other features are that, as it is called, it is ring fenced from the domestic economy, and the OBU regime is arguably ring fenced.

Senator CONROY—Yes. I was going to say that.

Mr Paine—It also has to have no exchange of information—and no-one has suggested that Australia does not exchange information fully and frankly with other countries—and it has to be disguised so that it is not aboveboard; there is no legislation. No-one suggests that that is the case. Everyone can read the legislation. All the rulings about the OBU regime are on the public record.

Since 1998, the OECD has been involved in quite a lot of discussion and they came back at the ministerial council meeting with a report on how they were going to implement it. They have essentially backed away a bit from the 1998 agreement. So they are now looking at what is potentially harmful. Australia has been working with the OECD to discuss whether the OBU regime is actually harmful. The other point worth making is that there was quite a substantial list of regimes in member countries that were listed as potentially harmful. So Australia in no way has been singled out in that sense, or is the only one. As you are probably aware, many countries have an OBU, or a financial centre regime.

In addition to that work on concessional regimes in member countries, they have been focusing on classical tax havens. Essentially, they have been offered a similar sort of arrangement where tax havens have been asked whether they would remove some of the harmful features from their regimes, and quite a lot of them have said that they are willing to consider that. The OECD has taken a mixture of offering assistance and saying where they find them objectionable.

The time frames, from recollection, are that by 2003 the potentially ameliorating factors are applied and then I think by 2005 there is a bit more of a deadline. I think that it is fair to say that Australia has really been caught up in the formalities of this. No-one, or very few, actually see our OBU regime as harmful in the sense that it was really targeted. The essential reason for that is that it is very explicit - people know what benefits their residents are getting when they come to Australia.

Mr Potts—In terms of the countries that are on this list of potentially harmful, it also includes—apart from Australia—the United States, Canada and France.

Mr Paine—And that is consistent with nearly everyone having some sort of concessionally taxed offshore banking or financial centre regime.

Senator CONROY—I think that you probably missed my point. I probably was not making it really clear. I was not saying that anyone currently considered Australia as being a tax haven, but under the guidelines we are a signatory to this.

Mr Paine—'Signatory' is too strong a word to use. It is not a legally binding agreement in that sense. In fact, when this agreement was reached, Australia actually made a note basically to the effect that Australia had an objective of setting up or maintaining a global financial centre and, therefore, that would be taken into account in setting the government's policies.

Senator CONROY—As part of the commitment when we agreed to this, the final outcome is that if there is a practice which is deemed to be harmful, if you do not get rid of it by 2005, you go onto the tax haven list.

Mr Paine—No, it is not that automatic. The point to remember is that in 1998 Australia made it clear when it agreed to this arrangement that it did have a global financial centre objective.

Senator CONROY—Was the OBU legislation passed? I know the commitment to the financial centre existed, but did the OBU legislation exist when the agreement was signed?

Mr Paine—The government had made its *Investing for growth* statement before the agreement was reached and I think it is fair to say that other members have agreed that the fact that it did not pass the parliament before the agreement was reached, notwithstanding that Australia is not bound by the standstill provisions—

Senator CONROY—The point I was making is that the final worst-case outcome is that we could possibly be listed in that. I was not saying that anyone considered that we were at the moment or that we were even close to that. That is the penalty that is contained within the agreement.

Mr Paine—We would still argue that existing OBU legislation predates the agreement.

Senator CONROY—I am not disagreeing with you. That probably is the case. I am just saying that that does not make any difference in terms of whether the OECD's working party at the end of the day feels that our OBU regime is a harmful tax practice; the consequences down the track are that we end up on a black list. I am not saying we have gained some; I am just saying that that is the penalties clause that is listed in the agreement we have agreed to.

Mr Paine—We would note that, when the agreement was reached, Australia noted that it had an objective of establishing and maintaining a global financial centre. So that was made very clear to OECD members when they were reaching the agreement.

Senator CONROY—I think I should probably be a bit more defensive than I need to be. We voted for the OBU legislation as well. We are not sitting here saying, 'Oh my God.' I am just trying to establish the facts of the situation. There is a list of penalties in the agreement that we have signed. Notwithstanding that, we have made a commitment to establish Australia as a global financial centre. That does not mean that, if we adopted a whole series of tax regimes a la, say, Bermuda, that would give us an excuse not to end up on the black list. All I am saying is that, just because we have said ‘global financial centre’, that does not mean that we can now engage in practices that are in breach of the agreement. If we are in breach of the agreement we end up with those penalties that are set out in the agreement. I am just trying to factually establish what the agreement commits everybody who are signatories to it to. ‘Signatories’ is too strong a word, but I mean the people who have agreed to this.

Mr Paine—I think ‘penalties’ is also too strong a word.

Senator CONROY—I think it is the word they use.

Mr Paine—The measures that people might take against any regime that is found to be actually harmful—and we are not at that stage yet—have yet to be really agreed. There is a large range of them. Black-listing is probably down at an extreme end.

Senator CONROY—The absolute worst case extreme end is that we end up bizarrely over that.

Mr Paine—Another thing to bear in mind is that, whatever the OECD does, at the end of the day it is for other countries to decide what they are going to apply. It is not a simple or a lightly taken measure to apply. Let us say a controlled foreign company regime to your residents investing in Australia: it is pretty obvious that it is not an actually harmful regime to anybody.

Senator CONROY—Now that we have established that, I will say that in 1998 we started talking, and as you say the legislation was around, if not passed. So after two years of discussions we have not yet been able to convince whoever it is who is the secretariat or the people who are in charge of investigating it that our OBU legislation is kosher, if I can use a colloquialism. It seems that after two years—1998 to 2000—they are still saying that it is a bit suss.

Mr Paine—I think it is more accurate to say that they spent most of those two years looking at tax havens. There are two distinct arms to this work. One is the sort of non-member tax havens. They spent most of the time looking at that and they have spent some of the time looking at the potentially harmful regimes in member countries. As Mr Potts noted, there is a long list of them. In fact, from recollection, all members were asked to put in a self-review, and there were several tens, if not more, of regimes that were listed as potentially harmful. It is not a quick process.

Senator CONROY—I have a long list of sinners here. It is okay. I completely agree. My question though is that I am presuming the Australian government knew or was aware that we were under consideration. As a member country, I presume they contacted us.

Mr Paine—That is right.

Senator CONROY—Let us say some time over the past two years—it might have been a month beforehand, I am presuming it was some time before that—they have been talking to us about it and we have not yet been able to convince them to take us off the list.

Mr Paine—I am not sure that it has got to that stage. Essentially, there have been investigations and people have been establishing the framework to decide what is actually harmful. So there has been a lot of preparatory work. From recollection, countries have not yet gone along and had to say in a final decision—

Senator CONROY—No, I am just saying—

Mr Paine—It will be in there with the pack.

Senator CONROY—I presume we are in there having discussions and at this stage the final decision could still be three years away.

Mr Paine—If you keep it in perspective—there are some countries where the private sector, essentially businesses, set up OBU regimes or financing centres and such things. If you read tax planning literature, you rarely see Australia mentioned.

Senator CONROY—You mentioned that there were a couple of criteria. I apologise. I am just struggling to find the list of them. It is not a very easy report to read. You said there are three or four different criteria. Do you have to fail all of them or do you have to fail one or two of them? How does it work? Do you have to get a tick or a cross in each category or is there a mixture?

Mr Paine—My recollection is that you have to have a low or nominal tax rate and one of the other three criteria. The three are on balance tests, I have been told. The other relevant ones are the ring fencing, essentially meaning that you try to stop residents from benefiting from the regime; and lack of exchange of information. No-one suggests that Australia—

Senator CONROY—I think we clearly passed two out of three with flying colours.

Mr Paine—The last one is no transparency. The Australian legislation and all the rulings are on the public record.

Senator CONROY—We are often referred to as a secret society, but I think this one will pass that test.

Mr Paine—We have a lower rate, though. The 10 per cent rate, I think, is the OBU rate.

Mr Killaly—I think that is a matter of debate itself. There is a prevailing view in some countries that 10 per cent is not a low or nominal rate. Some countries charge that as their standard rate.

Mr Paine—A relevant thing there is that it all depends on the tax base. Obviously, there would be some countries that would charge 30 per cent as a formal rate but would have a very narrow base, whereas essentially we have not given that many concessions on the base to these people.

Senator CONROY—So there is a question, as Mr Killaly said, about whether or not 10 per cent is a concessional rate?

Mr Paine—Yes. That is essentially why the study is now moving to whether any of these are actually harmful as distinct from—

Senator CONROY—You have to move into being defined as actually harmful before other things are then triggered. Can Australian residents access the OBU?

Mr Killaly—Yes, they can.

Senator CONROY—So we would pass that test, anyway?

Mr Killaly—There are disadvantages in some circumstances for the OBU if they do do that. For example, residents can access an OBU to deal in foreign exchange, provided there is no Australian dollar leg to the exchange transaction. If there is an Australian dollar leg, then it becomes non-qualifying income and subject to normal rates of tax.

Senator CONROY—You would believe that we do not fail the ring fencing test? You would actually think that we passed the ring fencing test?

Mr Killaly—That is a question, but I do not know whether that is necessarily fatal. It is an on-balance test. Just talking to the officials who are most heavily involved in this, they are concerned more about whether we actually audit the regime, because we do have a fairly robust transfer pricing regime which we apply. It is a transparent regime. Everyone knows what the rules are. Everybody knows how to get registered. We do actively exchange information with other tax jurisdictions. There is a bit of a debate about the tax rate, but I do not think that will be determinative. What will be determinative will be whether they can see us actively policing the boundaries around this thing and sharing the information that we get from doing that.

Senator CONROY—You are pretty confident that we will be successful in being removed the next time there is a report. I do not know when the next report is due. I am presuming it is a two-year cycle.

Mr Killaly—I think we have a very reasonable argument. What reinforces me in that view is that the OECD has not yet developed application criteria for each of those tests that it is applying. At the end of the day it seems to me that you can only confidently say a regime is harmful if it actually creates a distortion in an open market that can be regarded as in the nature of unfair competition. I think there are many factors to be taken into account before that conclusion can be drawn in our case.

Senator CONROY—That is a circular argument. If everybody else has already dropped their rate to 10 per cent, yes, I accept that our having 10 per cent is not concessional. But equally, the whole point of something titled *Towards global tax cooperation: progress in identifying and* *eliminating harmful tax practices* is stopping a bidding down process, I presume. It is about stopping the drawing away of income from one country with an unfair tax practice in another country. That is the point. Just because you can say, 'Everybody has already given up and we are down at 10 per cent or 0 per cent,' that does not mean it is not a harmful tax practice.

Mr Killaly—If you look at the whole system, there would be a couple of other things that you would have to factor into the analysis. One is whether any real business is being carried on. If Australia really is adding economic value in the services that it is providing, that is pretty relevant. I contrast conduit activity through tax havens in that regard. You can see that one regime is a genuine attempt to export valuable services. The other one is just a device to conceal transactions or to keep the tax authorities away from getting their fair share. The competition element in terms of tax rates is already there in the marketplace. The question really is whether it is harmful competition or whether it is acceptable competition. That then becomes a question of degree. Differential tax rates are not in themselves going to give the answer to that question. It is whether there is a reason to offer a differential tax rate that is economically justifiable. It presupposes, for example, that global capital markets are working efficiently, that they are open, transparent and in equilibrium, for example, and if you are a supplier of value add services but the market is not recognising you, it then raises the question of what do you do to get attention in that market if you are being disadvantaged by the current way the market is operating. So I do not think it is as straightforward an analysis as you are suggesting, Senator.

Senator CONROY—No. It is purely for the purpose of having it in my head when asking a question that is at least coherent. I try to reduce it to something that is relatively simple. I accept it is not that simple. It is just my way of trying to battle through the questions. What is the next stage? Do you have a date by which you have to put in a submission that they will consider? What happens next?

Mr Killaly—By 2003 the OECD is wanting to get itself into a position where it can actually make definitive statements about various regimes. It is drawing distinctions between tax havens and preferential regimes. The essential difference derives from that assessment that tax havens are not real economies in the relevant sense. They are not adding value, they are just conduits; whereas preferential regimes usually occur in a fair dinkum economy, and that is the fundamental difference that they are drawing.

As to what follows from that, it depends on what the group of 29 countries decides in terms of countermeasures. No countermeasures at this stage are being put forward in relation to preferential regimes; they are being put forward in relation to tax havens. The third thing is that in terms of a systemic analysis, there are three major groups of players in this equation: tax havens, OECD member countries that have preferential regimes, and non-member countries that have preferential regimes. No country in that kind of situation could take a position without being confident about what the others are doing, so the work is trying to be progressed in a way that looks at all those three windows at the same time.

Senator CONROY—Is there a date that we have to complete it by? I know 2003 is when they want to make the decision, but is there a time when you have to put in a submission? Presumably you have to have some discussions with them before 2003. I am just saying: is it 12 months that we have got to knock it around for and put the submission in to their committee?

Mr Killaly—It is an iterative process and the next meeting is in October, so it will be carried forward there.

Senator CONROY—That means I should remember to ask a question in October about how it went, that is all. Look forward to estimates!

CHAIR—I have several questions. Mr Hosking, thank you very much for the submission that has just come to hand—your presentation. There is quite a lot of interest in the deliberations of the committee on this issue and I might ask the committee whether it would be happy to incorporate into *Hansard* the part of your attachment 'Company Movements to Australia and Company Movements from Australia' because I think it is a very fine record for Australia at present and I think that needs to be known. Is it the wish of the committee that the presentation which we have before us be incorporated into *Hansard*? In addition, of course, to being an attachment to your submission, it will be part of the report as an attachment there.

The document read as follows—

CHAIR—We note that it has been submitted that the relative size, for example, of the Australian equities market coupled with our market's transparency and also the market's reporting requirements make it very difficult for certain global fund managers to operate inconspicuously and efficiently in Australia. So is that going to be a limitation on our ability to really be part of, in a very significant way, a global financial centre because of the sheer size of the market, our transparency and our reporting requirements which may be seen as limitations?

Mr Hosking—Traditionally, Chairman, the large entities that operate in the Australian market avoid being conspicuous, even though our markets are transparent, by using brokers and spreading their orders across several brokers to remain anonymous, and indeed that occurs even in the largest markets. So whilst Australia's market is relatively small compared to other markets, there are methods that the large players can use in transparent markets to remain inconspicuous.

CHAIR—They can also use nominee companies, can't they?

Mr Hosking—That is correct.

CHAIR—So that is not an impediment as you see it. The Australian foreign investment policy through the Foreign Acquisitions and Takeovers Act requires certain reporting of transactions once they reach a specified amount, so there is a point where there must be a notification and a reporting imposed by the Australian investment policy. Do you see this as an impediment, because it has been raised as an issue.

Mr Hosking—Mr Potts can probably answer that.

Mr Potts—That is an issue that is raised with us from time to time, particularly by fund managers, because there is a requirement under the FATA to notify when they reach 15 per cent, and we do have an arrangement in place which does provide them with some flexibility so that they can acquire up to 19½ per cent over the course of a 12-month period and at the end of the 12 months there is provision for that to be rolled over, if you like. So we do allow for some extension of that within the provisions of the law, but under the law the interpretation is that a funds manager is in a position of exercising control when they reach the 15 per cent threshold.

CHAIR—A question for Mr Hosking: it has been submitted that our market regulators must be able to demonstrate a risk based commercial attitude towards compliance and regulation and that regulators do need to focus on the protection of consumers of financial services while at the same time bearing in mind the differing abilities of consumers to make decisions for themselves. Do you think our markets' regulators do demonstrate that sort of flexibility and commercial attitude towards regulation and compliance?

Mr Hosking—The feedback that AXISS Australia receives from the private sector is that there is an appropriate balance approach by the regulators in that aspect.

CHAIR—Has that always been the case or is it a more recent evolution in terms of the changing needs of the financial markets?

Mr Hosking—Again, the feedback is that it has been a gradual improvement from what was regarded by the private sector several years ago as not having a risk based and proper balance to regulation.

CHAIR—In addition to Australia wanting to become a global financial centre, our tax regime must also be structured in such a way as to not unintentionally hamper Australian companies developing links with developing countries. It was put to the committee this morning by taxation representatives of BHP that, for example, in the case of Indonesia operating as a wholly owned subsidiary, there is no great tax impediment. However, many of these newly emerging countries and developing countries actually require joint venture operations. In such instances, if, for example, BHP enters into a joint venture operation there is the possibility of double tax and no tax credits. Would you like to address that issue, Mr Killaly?

Mr Killaly—I can in part, I guess. There are some proposals in the business tax review that look at some aspects of significant but not controlling investment. If a taxpayer has a more than 10 per cent interest in a joint venture in Indonesia, to use your example, they would be entitled to claim underlying tax credits in respect of that investment. That means that you take into account the tax paid at the company level when working out the appropriate level of tax paid in Australia. It is not simply a question of giving a credit for the dividend withholding tax that might be payable or any branch profits tax.

CHAIR—Is that peculiar to Indonesia or does that apply to most developing countries, such as Vietnam, Cambodia or some of these other newly emerging countries?

Mr Killaly—It is a treaty rule, so it would apply as a general proposition in respect of any non-portfolio investment made by an Australian enterprise in a treaty partner country. We do not have a treaty with Cambodia.

CHAIR—What are the main treaty countries that we have in terms of the developing world? We know the traditional ones.

Mr Killaly—Thailand, the Philippines, Argentina now. Some of them are well on the way: Vietnam, Korea.

CHAIR—What about places such as Argentina, where we have significant copper interests?

Mr Killaly—Argentina is in the treaty program now. I cannot recall exactly whether the treaty has been approved, but it has been negotiated at the level of officials.

CHAIR—So you are suggesting that in relation to developing countries with whom we have a developing treaty arrangement there is no impediment to companies such as BHP developing venture partnership or venture capital arrangements with those countries?

Mr Killaly—Not that I can see on the surface, but there may be some particular aspect of that joint venture that might need special consideration.

CHAIR—I put it to you: if a company is operating as a wholly owned subsidiary in those countries, there is no tax disadvantage as compared with operating through a joint venture type arrangement where you are sharing the development of the resource.

Mr Killaly—Not that I can see prima facie.

CHAIR—Would you like to take that on notice?

Mr Killaly—I will take it on notice. There might be a question around control that might be relevant.

CHAIR—Yes, thank you.

Senator CONROY—CLERP 6 was touted as cutting edge. I, along with Mr Hosking and I think Mr Thomas Harding, did the big world tour. We told everyone CLERP 6 was cutting edge and we were going to be ready on 1 January. How are we going?

Mr Willcock—I think you would be aware of the fact that Minister Hockey issued a press release—I think it was on 26 June or towards the end of last month—indicating the deferral of the introduction of that legislation, which was planned for the winter sittings, but indicating also that the government still intended to introduce and seek the speedy passage of the legislation in the spring sittings.

Senator CONROY—Is there any indication when the legislation will be public?

Mr Willcock—The final form of the legislation will be public when the government introduces it, in the spring sittings.

Senator CONROY—So it is not going to put it out earlier?

Mr Willcock—At this stage—

Senator CONROY—The spring sittings cover a long period—pre-Olympics, post-Olympics. I appreciate that you cannot give assurance, but if there is a date—

Mr Willcock—The only further specificity I can provide is that I understand it is necessary to introduce the legislation in the first three weeks of the spring sittings if the legislation is to be introduced and passed in the one sittings.

Senator CONROY—Okay.

Mr Potts—Of course, draft legislation was released earlier.

Senator CONROY—It is still short. Firstly, draft is not final and, secondly, it did not contain penalties and transition. So you would still believe that the start-up date of 1 January is feasible, even though the legislation may only hit the deck in mid-August, maybe?

Mr Willcock—That is the time line we are working to.

Senator CONROY—It does not leave business much time to absorb and get ready.

Mr Willcock—I cannot say exactly the first time the government said it was aiming for a 1 January commencement, but the government has for some time been signalling that it was aiming to have the package of reforms in place from 1 January. As Mr Potts reminds me, the basic shape of the legislation has been exposed since February this year. That was not the first time the basic shape of the legislation had been made public. It has been the subject of a fairly prolonged period of public consultation. While the legislation that was released for public exposure in February did not contain all of the provisions that the final package of legislation will require, certainly the essential features of the three licensing regimes that the legislation provides for and the product disclosure regime are there. I think the government would say, therefore, that industry has been given a fairly good indication already of the final shape.

Senator CONROY—The transitional provisions are fairly important for business to be able to cope with the legislation. Will they be released at the same time?

Mr Willcock—The final form of the legislative package will contain those, yes. Again, at the time the government released the exposure draft legislation it sought to give some guidance as to the approach that the legislation would adopt on those areas which had not been drafted at the time of the release in February and in particular in relation to transitional provisions. It did provide the commentary relating to the legislation and provided some guidance as to the likely two-year transition and the approach in relation to product disclosure and licensing.

Senator CONROY—I appreciate that, but until you see the final bit you do not really get a chance to sit down and look at it and examine whether there are some unintended consequences that will then need to be addressed. I have unfortunately had to follow this one from almost its inception. There are some fairly substantial changes along the way. The first document that was released on it was the discussion paper. People have actually said to me that the legislation has changed from the discussion paper. I would be concerned if there were substantial changes again from the draft legislation that we have seen so far. Businesses have come to me and said, ‘We are really concerned that the start-up date is going to be very hard to meet unless we get some sort of indication.’ Most of them were saying to me that they needed to see it before parliament rose. I am sure the minister was concerned about that.

Can I go to the reasons the minister put in his press release. He indicated that he believed we needed not to proceed because of the uncertainty. I think he is in the newspapers again today talking about the uncertainty of the Corporations Law and referral powers from the states. Is there some pending announcement about the states agreeing to referral? I am just trying to work out why you are so confident that it will be introduced in those three weeks when the circumstances around the uncertainty of the Corporations Law do not seem to have changed. I am hoping maybe you are going to tell us that the West Australian and South Australian governments have done an about-face and have agreed to refer.

Mr Willcock—I am not going to do that. All I can say, I suppose, is that the whole process of dealing with the underlying uncertainties that the Hughes High Court decision has given rise to in relation to the Corporations Law is the subject of ongoing negotiations between the Commonwealth and the states and, indeed, the Northern Territory. I think that topic will probably dominate the meeting of the Ministerial Council on Corporations and Securities on 27 July.

Senator CONROY—But there is no indication from Western Australia or South Australia that they have changed their position? The minister’s article today seemed to be more of a plea than an indication that he felt they had changed their position.

Mr Willcock—I think the minister’s article in today’s newspaper would be the most up-to-date reflection of the situation.

Senator CONROY—That is the *Financial Review*?

Mr Willcock—An authoritative journal.

Senator CONROY—An authoritative journal—cut it out! Just because the journo is behind you! I want to ask some questions in relation to some recent changes about some aggressive tax planning in some overseas market employee benefit arrangements. Mr Killaly, can you answer those? Senator Kemp announced some changes to aggressive tax planning involving New Zealand employee share benefit arrangements,

Mr Killaly—I am not personally familiar with that, but I am happy to take things on notice.

Senator CONROY—It is fairly detailed and technical. I do not want to waste everyone’s time. If you are not in a position to answer or if no-one behind you can give me a hand with that, I will probably move on. I noted an article recently, Mr Killaly, in which you got a lot of mention by George Megalogenis.

Mr Killaly—Is it regarding offshore banking?

Senator CONROY—No, this is just about the tax office and a report in relation to a speech you gave about auditing and things like that. There seemed to be a well-informed article about a speech, a pep talk you had given, to the troops in the office. Are you familiar with that one? It is from Wednesday, 28 June.

Mr Killaly—Yes, I think I know the one you are talking about.

Senator CONROY—It describes it as the ‘pep talk’.

CHAIR—Mr Killaly is well recognised in the international tax community.

Senator CONROY—You talked about clearing the deck of old work. Could you give us a summary of what you see the problem as being?

Mr Killaly—It was actually a video. It is really a point-in-time statement and it needs to be seen that way. In the transition to the business tax reform environment, I expressed a concern that we still had a lot of work that belonged to the previous period.

I was trying to make the point that our focus really needed to be on the transition and we needed to be much sharper about getting rid of some of those old issues, not in the sense of a fire sale but in the sense of being more professional about how we progressed that backlog. At the same time, I was concerned to ensure that we kept our eye on the transition itself so that if there was any positioning occurring in relation to the new rules we detected it very early in the piece.

They were essentially my opening remarks. The video was about the twin challenges of protecting the revenue whilst at the same time getting ready for the new business tax environment. In looking at the patterns and trends, I notice that they effectively dealt with a lot of the old issues and the numbers were coming down. However, what I was looking for was the identification of the new issues at the same time so that there was a balance in the program. That is really what the comment is directed to—that is, keep your eyes and ears open for the emerging issues as well as getting rid of the older ones.

Senator CONROY—I am sure you do not want to remember, but it was described as a 'stern lecture' to the expert staff who were supposed to be policing big businesses and tax cheats to lift their game. Would you characterise it as a stern lecture to get people to lift their game?

Mr Killaly—It was really about practice management within the Taxation Office and making sure that it was professional. That sounds like a comment by a film critic.

Senator CONROY—Well, you did say it was a video. You are quoted as saying that audits were down and staff were 'switching off their senses' and that companies were already six to eight months ahead of them. Can you confirm that that is what you said? What did you mean by that? There is a fairly worrying implication when you say that companies are running away in different directions on new things but you are not catching up or keeping up with them.

Mr Killaly—I am not suggesting that we are not catching up or keeping up; it is quite the opposite. In fact, our whole real-time focus is about doing just that. However, I do not believe you can do that by turning your back on the past. I think you have to transition from the past to the present and then the future. My comment was about people switching off their sensors, not their senses.

Senator CONROY—Okay.

Mr Killaly—It is that ability to sense the environment and make sure that we are actually aware of what is happening in the market so that we can make a distinction between patterns and trends that have deep structural drivers based on business and economic events relative to those that are tax driven. That is really what that is about. In terms of how the markets work these days, I remember that the first time we did a transfer pricing case there was a big debate as to what a normal, economic and business cycle was. People were talking in terms of seven to 14 years, but I am saying that, with the way we are seeing innovation and structural change occur now, those cycles are shortening and therefore our response and our ability to keep up is more at a premium. If we are talking about cases prior to 1995, that is five years ago and that really is a generation in today's parlance. I was underlining the point that, while we were doing some good things, it was a bit patchy and we needed to consolidate.

Senator CONROY—The other quote which gets some prominence is where you are quoted as saying, 'I get a sense of uncertainty as I look around the office.' I appreciate that these comments are obviously not in their full context, but I want to give you an opportunity to calm everybody who would perhaps have read this and thought that you had a few worries about where we were at.

Mr Killaly—We are in a complex, dynamic environment. The speed of change is increasing. That requires a structure and a process for managing complexity. To be able to distil that down to what we call the critical domains of attention—the things that really matter—is the only way to handle that kind of heavy traffic. What I was concerned about was that people were focusing on detail to the point where they were forgetting about materiality. In all of the noise of the markets, you have to identify the leverage points and you have to go for the material issues. We cannot do everything, so we have to go for the really important things that will give us leverage. That is what I am saying there. If you saw the video, you would understand.

Senator CONROY—It mentions that you were concerned about the transition to the new tax system because companies were already looking at ways to exploit reform. Do you have any examples? What sort of thing were you referring to?

Mr Killaly—A simple example would be the change in the tax rates, which has already been foreshadowed. The primary tax planning technique would be, to the extent that you are able to, and there are other constraints in the market and so forth that will be a balance on this, if somebody wanted to be really aggressive about it—and I am not saying everyone is, but there are some who are—they would try to load expenses forward or claim losses when they are worth 36 cents in the dollar and they would try to defer income to the point where it is taxed at 34 cents in the dollar or 30 cents in the dollar. That is an example of what I am talking about.

Senator CONROY—Those changes are coming over a couple of years, yet you are starting to see the edges of it already?

Mr Killaly—I am seeing a trend that is showing loss usage running at a trend higher than has been typically the case over previous years. I want to be sure that when people are claiming losses that they are genuine economic losses and not manufactured, that they have the arithmetic right and that they are properly adhering to the carry forward and the transfer rules.

Senator CONROY—Sure. Have you got any figures on that yet? You said it is running above the trend. Can you give us an indication of the jump? Is it a five per cent jump, a three per cent jump, or what?

Mr Killaly—This is just an impression, but it might be one or two billion above trend. You have to see that in the context of the whole revenue trend. There are compensating factors.

There are compliance initiatives that are yielding results so that the trend is actually strengthening overall.

Senator CONROY—It also says that you expressed concerned that the Taxation Office was not doing as many audits as before.

CHAIR—One member of the committee has to leave. Is it the wish of this committee that it be formed into a subcommittee, which will enable Senator Conroy and me to continue in the absence of Senator Hogg? There being no objection, it is so ordered. Thank you, Senator Hogg, for your attendance today.

Senator CONROY—According to the article, you expressed a concern that the Taxation Office was not doing as many audits as before. Was that correct?

Mr Killaly—I do not know where that came from, Senator. If you look at what we call audit products, and they go from risk assessments right through to audits, we have been averaging about 800 audit products a year. If you take the top 100 companies, 47 of those are under audit. We split the market up demographically by slices, having regard to its economic significance by sector and also by size. That has been fairly constant. What I am concerned about is making sure that we direct our attention to the big ticket items. We have a lot of cases where the revenue at risk might be half a million dollars. I am not saying that in a trivial way. It is important to note that. But when you are looking at other cases where the revenue loss might be considerably more than that, then I think we need to direct our attention at the more important areas.

Senator CONROY—In relation to the level of resources that your section has at the moment, has that remained constant?

Mr Killaly—It is fairly constant, with around 1,200 full-time equivalents.

Senator CONROY—Is it up or down at the moment compared to last year? Have you lost staff across to the GST unit? I understand that a lot of pilfering went on. Did you lose a fair few staff across to the GST monster?

Mr Killaly—I would not call it pilfering. We have been fairly conscious to try to ensure that we have got a spread of appropriate talent right across all the different functions. Large business did not lose many people to GST. We lost a few; a couple of assistant commissioners came out of our area. I do not see that as being a threat to our viability.

Senator CONROY—You lost the people, but the positions are still—

Mr Killaly—The positions are still with us. We were able to backfill them.

CHAIR—Senator, can we use your considerable expertise in this area to direct questions in relation to Australia as a global financial setting maybe in terms that the tax office will be able to handle?

Senator CONROY—Just to help Senator Watson and to ease his concerns, one of the concerns that is often expressed by business, particularly those looking to set up in Australia—and I am sure Mr Hosking will back me up on this—is that consistency of tax office procedure and rulings is a real bugbear. So I am just looking to ensure that everything is okay and—

CHAIR—Just frame the question in that way.

Senator CONROY—I am very conscious of wanting to stay within the terms of reference, Senator Watson. I am just offering Mr Killaly the opportunity to rebut what seems to be some fairly harsh criticism in the way it has been portrayed and to give businesses, both those that are here now and those that we are trying to attract, confidence that they can get a good, consistent hearing and a fair ruling. That is really where I am going to in terms of wanting to give Mr Killaly the opportunity to defend himself from this article.

Mr Killaly—I will take that in a short way by saying that I do want to emphasise that fieldwork is only one part of our whole repertoire. We have been very conscious to skill up and resource centres of expertise to give advice to business in respect of the tax reform changes.

Senator CONROY—I was just wanting to change tack slightly. How is Mr Sherman's inquiry into PBRs going?

Mr Killaly—I cannot tell you in overall terms. I think he is due to report in about a month's time. I have had one conversation with him.

Senator CONROY—Hopefully, you will have a couple more.

CHAIR—There will be other opportunities.

Senator CONROY—No, I am just saying that Mr Sherman is one of the key people in the tax office and has been involved, I am sure, with some private binding rulings and decisions. Hopefully, he will have more than one chat with you before he does a report. He would be hoping to make a contribution, I am sure.

Mr Killaly—He is talking to people throughout the office. His focus is on looking at the probity of the whole system, not just PBRs.

Senator CONROY—I think initially it was reported that he had been asked to report by July, so at the end of the month. You are not aware that it is possibly running behind or it is on track for the end of July?

Mr Killaly—I am not aware.

Senator CONROY—Mr Hosking, how was London? I am assuming you were there. I did not see your name up in lights like everybody else's, but I am assuming you were there.

Mr Hosking—Yes, I was there. As far as the activity of AXISS Australia is concerned, it was very successful. We had a seminar on Tuesday morning of last week which approximately 110 people attended. There were two premiers—the Premier of New South Wales and the Premier of Victoria—who spoke about their own activities as far as the financial centre is concerned. Several representatives of the private sector and I gave presentations. That was well received. Then that evening AXISS was present at a dinner—and sponsored the dinner—at which the Prime Minister hosted probably 30 or so people of either CEO or chairman status from the European banks.

Senator CONROY—I saw a report of an announcement and I was pleased about it. I am just hoping you could fill us in a bit on it. The premiers of Victoria and New South Wales committed to support Australia as a global financial centre. I just did not quite understand what they were saying they were going to do. I was hoping that you might be able to fill me in. I have not had a chance to catch up with the Premier of Victoria since he got back yesterday. Did you see the report?

Mr Hosking—I have seen the report. At a press conference after the seminar both premiers answered questions on that very topic. The responses that they were giving were that they both see a cooperative approach to developing Australia as a global financial centre, that they saw advantages in the fact that there were niches to be offered in Victoria and in New South Wales, and that as compared with, say, Singapore and Hong Kong, which were island states, that was a benefit. On several occasions they were making it quite clear that there was a strong collective approach between New South Wales and Victoria to the initiative.

Senator CONROY—That is pleasing to hear. I think I asked you some questions about when it was decided by AXISS to host the seminar. Were you here then? I think it was at estimates.

Mr Hosking—I attended the last hearing.

Senator CONROY—Did I ask you those questions then?

Mr Hosking—I do not recall.

Senator CONROY—When did AXISS decide to host that seminar?

Mr Hosking—I cannot recall the exact month, but it was very shortly after I came on board. So it must have been roughly February.

Senator CONROY—I am thinking that you said it was back at the beginning of the year, from a vague recollection.

Mr Hosking—When we first heard that Federation of Australia events were going to be occurring in London, it was discussed that Minister Hockey would approach the Prime Minister with regard to hosting a dinner and at the same time AXISS would host a seminar coinciding with that dinner.

Senator CONROY—How much did that seminar cost to host?

Mr Hosking—We had to pay for a conference coordinator and the facility. I have not seen the final bill, but it was approximately $70,000 to $100,000.

Senator CONROY—You sponsored the dinner you mentioned. What was that?

Mr Hosking—We had to pay for the food, wine and flowers at Australia House. Again, I am not sure of the exact amount, but I am estimating it will cost somewhere in the vicinity of $50,000.

Senator CONROY—That was a dinner for the Prime Minister?

Mr Hosking—The Prime Minister, all of the state premiers in London at the time, the Deputy Prime Minister and roughly 45 other guests as well.

Senator CONROY—That was the top banking and financial institutions?

Mr Hosking—Yes.

Senator CONROY—Could you give us the flavour of who was there and which organisations?

Mr Hosking—They ranged from the Governor of the Bank of England, Sir Edward George; the head of the regulatory authority, Sir Howard Davies; through to the chairmen of Deutsche Bank, ABN AMRO, UBS and that sort of flavour.

Senator CONROY—There were some reports of a number of Australian business people who went over for the seminar. Were any of those at the dinner?

Mr Hosking—Yes, all of those people were at the dinner.

Senator CONROY—How many non-Australians were there?

Mr Hosking—Again, I have not got the list in front of me, but I think at least 25 to 30 were Europeans.

Senator CONROY—So the overwhelming majority were already there as opposed to coming over from Australia?

Mr Hosking—Yes. Just to make that accurate, there would have been five or six who are London based out of the High Commission or Invest Australia, et cetera.

Senator CONROY—I understand. I am talking about the sort of external business rather than part of the organisation. Were you happy? Did you think it was a success? It has generated some interest?

Mr Hosking—The dinner certainly was successful in pressing upon the senior executives of those banks that Australia was serious about developing itself as a financial centre. I took the opportunity for the remainder of the week to follow up with a number of inquiries that had been made of Australia regarding regional headquartering from some of the European banks and other entities. So overall, the objective of making people aware that there is an initiative which has whole-of-government, combined with state government, support and now we had an entity whereby a one-stop access approach could be made towards knowing anything about the Australian marketplace or its statistics, et cetera. It was very beneficial in developing that theme.

Senator CONROY—Any hot prospects that have developed out of that particular—

Mr Hosking—There was one prospect in particular that I—

Senator CONROY—I appreciate the commercial sensitivities, so I am not expecting you to—

Mr Hosking—I will not give the name but, yes, there was one prospect in particular who appreciated the ability to sit down face to face with me for an hour or so and talk through some of the issues regarding licensing and regulatory matters. I think we brought to an awareness one or two others that were probably in the theme of perceiving Australia as not as advanced in its regulatory framework and indeed its capital market size. They were just not aware that we had come so far. I am sure they will be going away and looking further at what they should be doing in Australia.

Senator CONROY—That is probably our biggest disadvantage. We just do not get on the radar screen.

Mr Hosking—That is correct. I think part of the raison d’etre for going over there is that Australia does not get much airplay in the media, so it is up to entities such as AXISS Australia to go over there and, through direct marketing with entities, tell them what we are doing.

Senator CONROY—I just want to get back to the tax office for a minute. A number of submissions have raised questions about the taxation of e-commerce transactions. What work are you doing in relation to e-commerce at the moment, in relation to taxation?

Mr Killaly—There is quite an international dialogue going on regarding this whole question. The tax office has published two reports that look at the taxation questions—not just the interpretive and policy issues that might be there but also the administrative issues that flow from it. There is a third range of issues, too. It is not just all risk; there are opportunities there, too. As one senior executive said to me recently, it is not just a matter of putting dot.com after your name. It is a matter of thinking about how the dot.com functionality might affect the way you see your business, the way you do your business and even how you conceive markets. That is certainly true of electronic commerce. It has that potential to redefine pretty much every single component of the market right through to the function.

Senator CONROY—I would like to come back to that, but I need to do something. Senator Watson probably wants to fire a question somewhere else, but I would like to come back to that issue.

CHAIR—I will raise some issues associated with the Financial Services Reform Bill. It has been pointed out that perhaps some of those regulations and requirements have been developed to meet the needs of the financial planning industry and do not recognise the unique nature of the stockbroking industry, in particular such issues as the market risk, for example, to the industry if we accepted the 14-day cooling-off period. Would you like to comment on that, please?

Mr Willcock—The bill contains provisions that would apply a 14-day cooling-off period to managed investments. I suppose I need to set that into a wider context. There is no cooling-off period currently available under the Corporations Law in relation to purchases of interests in managed investment schemes. There are, however, I understand, cooling-off periods available in relation to investment life products and certain superannuation products.

CHAIR—Equities?

Mr Willcock—You mean straight shares?

CHAIR—Yes.

Mr Willcock—No. One of the proposals that was part of a consultation paper that the government released last year in relation to the possible treatment of managed investments was a choice between lining up the treatment of managed investments with investment life products and superannuation and leaving managed investments in the same sort of category of regulatory treatment as that which applies to shares and debentures. As a result of feedback on that proposal, which was contained, as I say, in the consultation paper last year, the government decided to put in the draft bill, which was released in February this year, a framework where managed investments were more closely aligned with life products and superannuation.

For that reason it is proposed that the product disclosure requirements that would apply to managed investments would no longer be the prospectus rules that currently apply to them and which also apply to shares and debentures but would instead be the new product disclosure framework that is proposed under the Financial Services Reform Bill. In other words, under the bill there will be a change in treatment of managed investments. The point of that change is very much more to align the treatment of managed investments with the treatment accorded to investment life and super products. Part of that alignment process would be to provide or make available a cooling-off period to people who were buying managed investments, in the same way that they would have a cooling-off period available to them when they buy—

CHAIR—As I read it at the moment, that extension picks up the problems of the stockbrokers in trading in equities. So if the price goes up, they will accept it. If the price goes down, they will walk away under the 14-day rule for stockbroking. So I come back to the point I made initially: the rules seem to be framed in the light of financial planning. All the points you make are very valid, except that in terms of equities and debentures I can see the problems for the stockbroking industry if there is not some sort of provision that will recognise the unique features of stockbroking, as opposed to financial planning products, such as financial management type risk products as well.

Mr Willcock—We certainly recognise the problems of having a cooling-off period which might provide scope for a client to use that period for speculative purposes and to await the outcome of the market's movements and decide at the end of 14 days whether they want to avail themselves of the cooling-off period to gain the benefit of some market movement. It was always our intention to include mechanisms which would seek to address that. What is proposed in relation to managed investments is not a simple outcome where at the end of the 14 days a person would be able to say, ‘I put my hand up to avail myself of the cooling-off period,’ and simply get back the money they paid in. We recognise the need for there to be an adjustment to the price paid back at the end of the 14-day period to ensure that that possibility of speculation at the expense of the issuer or the intermediary of the managed investment product is taken into account.

CHAIR—Share brokers trading in equities and debentures have this problem under this bill if it goes through in its present form. Do you recognise the particularly unique problems of the stockbroking industry, as opposed to all these others that you have mentioned and covered—and I say quite rightly, because they involve financial planning type issues, rather than stockbroking in terms of trading in equities and debentures, et cetera?

Mr Willcock—I do not know that it is a matter of asking whether I do or do not recognise the particular position of stockbrokers. All I can say, as I have said before, is that it is not a simple proposal to provide a cooling-off period that would allow people to speculate. In the commentary to the bill that was released in February we specifically drew attention to the fact that we would like to accompany any introduction of a cooling-off facility for managed investments with other provisions which would ensure that there would not be speculation. The reaction that we have received to the provisions have been on a spectrum from support of the proposal that it cover managed investments to the raising of concern, especially of the kind, I suppose, to which you are referring—that is, the possibility that people will use the cooling-off period to make money at the expense of the product issuer or the intermediary. So that is something that we are aware of and would seek to address.

CHAIR—Is any work being done in order to differentiate the products or to overcome the problems as the stockbrokers see them?

Mr Willcock—I am not quite sure I follow. To differentiate what prices?

CHAIR—The committee would like to ask the Treasury to address this issue because I think it can have ramifications for the stockbroking industry.

Mr Potts—We will certainly look at the issue. The principle is that the individuals should be bearing the market risk involved.

CHAIR—Which might be quite substantial.

Mr Potts—It could be in certain circumstances—14-day periods.

CHAIR—That would be quite an unfair imposition by way of legislation on the industry.

Mr Potts—In the end the investor or the consumer would actually pay indirectly whatever arrangements are put in place.

CHAIR—It could be some big dollars. Did it happen with a decline in the Nasdaq or accompanying volatile movement in the Australian market? I raise the issue and I will put the issue to you. Mr Hosking, you mentioned the need for rationalisation of clearing houses. What developments have occurred and will Australia actually encourage further rationalisation of clearing houses?

Mr Hosking—I understand that quite a series of meetings have gone on amongst the clearing houses themselves with a view to determining whether at a minimum there can be some connectivity between the systems that are operated by these clearing houses, in other words, the ability for the ASX's clearing house to communicate with the Sydney Futures Exchange clearing house regarding products that may be similar, such as equities and equity derivatives. There have also been discussions, I understand, between certain clearing houses as to whether they can go the step further of either having alliances or mergers. There has been no activity directly by government that has given any directions or has had any involvement in furthering a convergence of clearing organisations at this stage. There is a benefit in providing ultimately competing clearing house activities within Australia for debt and equity products on a single platform. We are monitoring whether the ultimate result of the discussions that go on amongst these clearing houses will move in that direction.

CHAIR—With respect to the new licensing arrangements for market operators without grandfathering arrangements, it has been put to us that for many of the large operators a reading of the draft bill suggests that the licence is to cover all the traders within that firm or institution, is that correct, or just a nominated trader—or under the name of the house itself?

Mr Willcock—I am sorry, Senator. Are we talking about licensing of the market or are we talking about—

CHAIR—The market operators, without recognising the need for certain grandfathering arrangements to recognise existing operators, et cetera. Will that require a licensing of all the traders under a particular house, brand or name? Would you like to take that on notice?

Mr Willcock—I will respond as best I can and just see if it goes to the issue that you are raising. The bill contains a licensing regime to apply to the operators of financial markets. There are already, as you would appreciate, financial markets or financial exchanges that are operating in Australia, such as the ASX and the Sydney Futures Exchange. Under the proposals contained in the bill and the accompanying documentation, the government is proposing, in effect, to grandfather the operation of those existing exchanges to the extent—or grandfather and allow therefore to continue to operate under the new regime the current operations of those exchanges. So what the ASX—

CHAIR—So that grandfathering extends to the operators who are in those markets?

Mr Willcock—It is grandfathering the operation by the financial market operators—for example, the ASX or the SFE—for what it is that they are currently doing. So the licence goes to the operation of, in the case of the ASX, the stock exchange's market; in the case of the Sydney Futures Exchange, the futures market. The actual intermediaries who may be what people might currently call members of those exchanges will, in the ordinary course, require a separate financial service licence. Such a licence is required by people who will be doing things such as advising in relation to financial products, dealing in financial products, operating managed investment schemes or providing custodian or depository services. If, as an outsider, you are looking at, for example, the stock exchange, you will see an entity that is operating the exchange—the market that is on the exchange—and that entity will require a financial market operator's licence. There are members, dealers, brokers on the exchange who will themselves be separately the subject of an ASIC licensing regime who will require a financial services licence. The grandfathering proposal simply goes to the financial market operator, not to the financial service provider.

CHAIR—So if a person is sitting behind a desk with a client, will he require separate licensing?

Mr Willcock—It depends what the person sitting behind the desk is—

CHAIR—Can you take the question on notice because we are getting down to the stage on a face-to-face basis whether you operate under the house licence or whether you operate on an individual licence.

Mr Willcock—As Senator Conroy says, I am happy to take it on notice, Senator, but before doing so I would like a little clarification. When you say a person is sitting across the desk from another person, they may not require any licence if what they are doing is not an activity that requires a licence. Depending on the nature of the activity they are engaged in, that may require—

CHAIR—We are presuming they are dealing in the activity—

Mr Willcock—What particular activity?

CHAIR—Yes.

Senator CONROY—We have a chicken and egg question here.

CHAIR—We are under time pressures. It has been put to us that there is a maze of institutional arrangements encountered in Australia in order to do business. For example, Skandia mentioned in its submission that there is only one point of contact for doing business in Ireland. What steps are being taken to rationalise those various points of contact that are going to be required in terms of establishing a global financial institution? I might have to ask you to take that on notice.

Mr Hosking—I can answer that very quickly. AXISS Australia is the one-stop reference point for those inquiries and I am pleased to advise you that we met with Skandia the day after they appeared before this hearing and they were very pleased to find that there was a one-stop shop.

CHAIR—One hundred per cent. Thank you very much. It is good that you are following the inquiry so assiduously. In terms of the harmonisation of accounting standards, Mr Hosking, are there any developments on that score?

Mr Hosking—I have an answer in my letter that came to the Senate this morning.

CHAIR—Thank you very much. At the present time, the collective investment vehicle has certain problems, for example, in terms of definition. There are a number of mutuals that we have been invited to set up in Australia. Currently, they appear to be in technical breach of the collective investment vehicle. Are you going to amend the definition there to make sure there is no impediment such as that they have to go back home and refund the moneys that they have collected here in Australia?

Mr Paine—Senator, the Treasurer has that issue under active consideration.

CHAIR—In terms of the Citibank World Gold Centre here in Australia, there were some problems as a result of some changes of legislation. Has any progress been made on that, because there was a possibility that they might have to put that offshore? Again, could you take that on notice?

Mr Killaly—Yes, Senator. I think that is under consideration.

CHAIR—And also the treatment of the remuneration for expatriate staff in terms of the superannuation guarantee charge; they come here for eight years, having to remain until they retire and cannot take it with them and also that it must be an Australian fund rather than an overseas fund. I am afraid I might have to defer now for five minutes while my colleague Senator Conroy—

Senator CONROY—I would not want Senator Watson to miss his plane. You can all relax in that sense. I want to return briefly to the dinner. Did you go, Mr Hosking?

Mr Hosking—Yes, I did.

Senator CONROY—Fifty thousand dollars, 40 to 45 people; that sounds like it was about $1,000 a head.

Mr Hosking—For the dinner?

Senator CONROY—$50,000 for the dinner.

Mr Hosking—For the wines, for the room, for the flowers—

Senator CONROY—Was it at Australia House, did you say?

Mr Hosking—Yes, it was.

Senator CONROY—What was on the menu at $1,000 a head?

Mr Hosking—I cannot recall, Senator. I am happy to take that on notice.

Senator CONROY—If you could. It sounds like a slap-up dinner there. I mean, you have got Australian small businesses struggling with a $250 coupon—or a $200 coupon—and the Prime Minister is in London at a $1,000 a head cost function.

Mr Hosking—The cost I am quoting, Senator, may include other factors that I will have to—

Senator CONROY—You did say flowers and it was at Australia House. I am presuming they did not charge too much.

Mr Hosking—I have not seen the bill. I will have to report back to you on exactly what the breakdown is and indeed—

Senator CONROY—There is a big disparity there for Australian small businesses struggling with the impact of the GST with a little voucher for $200, $250 and the Prime Minister enjoying himself at $1,000 a head. I was just asking a question.

CHAIR—I am asking for the questions to be focused.

Senator CONROY—We are focused. I am focused on the menu, on the wine list. I would not want you to leave without me asking you some questions. I have many, many more questions but—

CHAIR—Would you like to put them on notice?

Senator CONROY—I will happily wait till estimates.

CHAIR—That would be good.

Senator CONROY—And I am happy to take the menu on notice.

Mr Hosking—Certainly.

Senator CONROY—I would not want you to miss your plane. I would not want to start another line of questioning. We will come back to the e-commerce issue, Mr Killaly.

CHAIR—Thank you very much for your cooperation, Senator Conroy. There are a couple of questions that will be taken on notice. Thank you very much for appearing before the committee today.

Committee adjourned at 4.09 p.m.