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COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE

of

PUBLIC ACCOUNTS AND AUDIT

FORUM

Reference: Internet commerce

CANBERRA

Tuesday, 3 February 1998

PROOF HANSARD REPORT

CONDITION OF DISTRIBUTION

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CANBERRA

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Members

Mr Charles (Chair)

Mr Griffin (Vice-Chair)

Senator Coonan
Senator Crowley
Senator Gibson
Senator Hogg
Senator Murray
Senator Watson

Mr Anthony
Mr Beddall
Mr Broadbent
Mrs Crosio
Mr Fitzgibbon
Mr Georgiou
Mr Sharp
Mrs Stone

The terms of reference for this inquiry are:

The Committee shall inquire into and report on the impact of internet commerce on:

- (1) the administration of the Australian taxation system and the implications for Australia's tax base;
- (2) the international competitiveness of Australian businesses, particularly small and medium enterprises, with the emergence of the internet as a retailing medium; and
- (3) government industry assistance programs, Customs administration, and the quality and accuracy of Australia's economic and trade statistics.

In conducting its inquiry the Committee will consider:

- (a) the expected growth in internet commerce;
- (b) the findings of and solutions proposed by the Task Force on Electronic Commerce established by the Commissioner of Taxation;
- (c) the quantity, value and type of goods entering Australia under the duty and sales tax free limit, and the commercial entry thresholds, administered by the Australian Customs Service;

- (d) the appropriateness of the existing duty and sales tax free limit, and the commercial entry thresholds, referred to in paragraph (c) and the implications, costs and benefits of any alteration to these limits and thresholds;
- (e) the commercial opportunities (both domestic and export opportunities) afforded to Australian firms by the growth in internet commerce;
- (f) the current frameworks for consumer protection and the protection of intellectual property;
- (g) the opportunities for Commonwealth agencies to improve services to the business sector and to the general public arising from growth in internet commerce;
- (h) the extent to which the Government's potential responses to the growth in internet commerce are affected by international agreements or conventions; and
- (i) the policy approaches being taken by other countries and the scope for international cooperation.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

FORUM

Internet commerce

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Tuesday, 3 February 1998

MEMBERSHIP OF THE SECTIONAL COMMITTEE
ON INTERNET COMMERCE

Mr Charles (Chair)

Mr Griffin (Vice-Chair)

Senator Coonan	Mr Anthony
Senator Crowley	Mr Beddall
Senator Gibson	Mrs Crosio
Senator Hogg	Mr Fitzgibbon
Senator Watson	

PROCEEDINGS

Participants

Australian Competition and Consumer Commission

Mr Alan Asher

Australian and New Zealand Association of Antiquarian Booksellers

Dr Martin Nagle

Arthur Andersen

Mr Tony Stolarek

Mr Damian Walsh

Australian Taxation Office

Mr Jim Killaly

Mr Paul Bray

Mr Frank Merrick

Mrs Ariane Pickering

Attorney-General's Department

Mr Peter Ford

Mr Steve Orłowski

Mr John Schmidt

Ms Kathy Leigh

Australian Bankers Association

Mr Ross Robins

Australian Bureau of Statistics

Mr Russell Rogers

Mr Bob McColl

Australian Consumers Association

Ms Mara Bun

Australian Customs Service

Mr John Drury

Mr Graeme Austin

Mr Peter Gulbrandsen

Australian Fishing Tackle Association

Mr John Dunphy

Mr Lawrie Webb

Australia Post

Mr Chris Grosser
Mr Gerry Ryan

Australian Privacy Charter Council

Mr Nigel Waters

Australian Retailers Association

Mr David Shetliffe

Australian Society of Certified Practising Accountants

Mr David Johns
Mr Michael McKenna

Conference of Asian Pacific Express Carriers (CAPEC)

Mr Ken Muldoon

Coles Myer

Mr Tom Curtis

Customs Brokers Council of Australia

Mr Stephen Morris

Department of Communications and the Arts

Mr Brian Stewart

Department of Foreign Affairs and Trade and Austrade

Dr Mike Adams
Mr Greg Joffe
Mr Lloyd Bennett
Mr Mike Hammond

Department of Industry, Science and Technology

Mr Mike Todd
Mr Peter Moore
Mr Mike Stracey
Mr Philip Noonan
Mr Peter Clarke
Mr John Griffiths
Mr Rodney Bourke
Ms Margaret Fanning
Mr Bob Webb

Internet Industry Association
Mr Michael Ward

Institute of Chartered Accountants
Mr Paul McNab

National Australia Bank
Mr Ian McLean
Mr Michael Coomer

Privacy Commissioner
Ms Moira Scollay
Mr Paul Kelly

Treasury
Mr Bruce Paine
Mr Paul Lindwall
Mr Kevin McNamara
Mr Michael Rosser

www.consult
Mr Ramin Marzbani

[9.00 a.m.]

CHAIR—Good morning, ladies and gentlemen. We will now start today's proceedings. I thank everyone for coming. There are a lot of people here today and these are very important issues, so I hope we can be concise and precise and try to get to it. We are looking forward to the interplay between various people who will have differing views on each of the topics that we have to cover today and those differing views will indeed help us to come to some resolution of these problems.

The Joint Committee of Public Accounts and Audit will now take evidence as provided for by the Public Accounts and Audit Committee Act 1951 for its inquiry into Internet commerce. I declare open this round table forum of the Joint Committee of Public Accounts and Audit inquiry into Internet commerce. The JCPAA has received over 60 submissions and conducted public hearings on this matter in Canberra, Sydney and Melbourne. The inquiry rates as one of the most important conducted by the committee in recent times. Internet commerce has the potential to dramatically change the way consumers and retailers do business. Markets will no longer be local but international in size. The new form of commerce has the potential to affect in varying ways all areas of domestic and international economy.

This inquiry is focused on tax administration, customs administration and the international competitiveness of Australia's small and medium business enterprises. The minimum objective for the inquiry is to help identify the size and nature of the challenges created by the Internet and suggest possible strategies for the future. Australia must strive to be at the forefront of international developments in this area. It must embrace the Internet and it must compete aggressively in the new markets created by the Internet.

During the previous six months the committee has received quality submissions and taken evidence at public hearings from industry, government and individuals. This phase of the inquiry has been informative and helped to show the variety of issues that are influenced by Internet commerce.

Today's round table forum brings together some of the major groups to debate the key issues of the inquiry. To help structure the forum, five key discussion issues have been selected. I will introduce each discussion issue as we progress through the day.

Before we get started, I would like to remind participants about procedures and conduct of the forum. All witnesses will have the opportunity to raise issues and seek comment from other witnesses at the forum. However, in these instances the committee prefers that witnesses should address their questions through the committee chair. This will ensure that the events constitute formal proceedings of the parliament and therefore attract parliamentary privilege. We would like you to question each other, but through me, if you please, and then we have a formal hearing.

Witnesses should, to assist other participants and Hansard, particularly, identify themselves and the organisation they represent whenever they make a comment. Statements and comments by witnesses should, as far as possible, be brief and succinct so that all the issues can be covered in the time available. No more than two representatives from each agency should be at the witness table at any one time. As the topics under discussion change, other representatives may replace those at the table, as appropriate.

Would you please note that the number of places at the table is limited and at some times there may not be enough seats for all witnesses. In these cases some groups will only be able to have one representative at the table. Additional chairs have been provided so that witnesses can sit directly behind their colleagues at the table.

Before swearing in the witnesses I will refer members of the media who may be present at this committee to a committee statement about the broadcasting of proceedings. In particular, I draw the media's attention to the need to fairly and accurately report proceedings of the committee. Copies of the statement are available from the secretariat staff present at this meeting.

I now welcome witnesses to the round table forum. I would remind everyone here that this is a joint committee with members of the House and senators and that we now have members on the committee from all five major political parties. We will start with issue No. 1. We are a little behind already.

An accurate and reliable statistical database describing features of Internet usage and Internet commerce is essential for business planning and government policy making. The committee notes that there is a range of conflicting information regarding the current and future estimates of Internet commerce and rates of Internet usage. The committee has therefore decided to begin the forum with a discussion of the statistical database, because it influences to a varying degree the other areas of the inquiry. Let me simply say that there is not much sense in putting in new major taxation policy if Australians are not going to use the Internet for commerce.

The committee is seeking to assist the accuracy and reliability of the available statistical data and to identify information deficit areas. I now hand over to Mr Ramin Marzbani, Principal of www.consult, who will introduce this discussion issue. We have 45 minutes, and we will discuss issue No. 2 at 10.15 a.m.

Mr MARZBANI—Good morning. In the interests of time, we will skip a number of the sections today, and I will try and speed it up a little. Very quickly, in terms of credentials of why we are here, we are the largest organisation, having spent \$2 million researching the Internet in Australia over the past 2½ years, and we cover a number of non-Australian countries as well as Australia.

In terms of the research base that we have been producing, we cover everything

from people who use the Internet to people who do not, to enterprises, to advertising, infrastructure and a broad range of other things. It should be noted that we are currently working with DIST and a committee they have set up to provide some information summary digests to the public on a regular basis, covering the key statistical occurrences within Australia for public consumption. That is just by way of background.

The key issue that we see out there, in terms of looking at the numbers, is defining what a user is. Would you count people who are only using e-mail from within their corporate environments? What about people who are casual users, or regular users who have their own account or who share, or people who use public access to gain access to the Internet? With regard to how many hours per week they use, is someone who uses one hour per week the same as someone who uses 20 hours per week? Are they using it at home, at work, from the home office, for personal use, or business use?

These are really tough questions, and the idea is to explain why they have an impact on how we assess the market size. You can look at the market size in two ways. Looking at supply, how much bandwidth is out there? How much supply from Internet service providers? How many lines can people use to dial up? How many permanent lines are connecting businesses? How many web sites and services are out there? Or you can look at demand. What are consumers and businesses asking for? What do they have in terms of access and presence? How are they connected?

In terms of what is in the market, there is no definition of the Internet really today, or Internet commerce or electronic commerce or multimedia. Everyone struggles with definitions. That is why putting numbers against them—as you will find people from the Bureau of Statistics will make clear—is a very difficult exercise all round. There is little sense of the value adding or incremental activity also in some of the definitions we see out there. You may say that everything that involves a couple of different media is multimedia, but it becomes hard to put it together.

Overhead transparencies were then shown—

Mr MARZBANI—In terms of measurements and policy, just to illustrate numbers that we see for the OECD, estimates for the numbers of Internet users in Australia between 1996 and 1997 range from 300,000 to 3½ million users. So there is a 10 times difference in terms of how many users are really out there. Just within 1997 the range was between 1.2 million and 3.5 million users in Australia alone. So if we take that as our premise it is very hard to look at statistics for other countries and decide if they are accurate or not.

I will skip to a couple of key numbers from within the OECD numbers, primarily to the US estimates. They range from around 29 million to 56 million for 1997 within the US alone. That is only a two times difference, but it is still a significant enough difference that would leave you uncomfortable saying that there are so many Internet users out there.

In terms of total OECD forecasts for growth, the forecasts for Australia that are available are ranging from four to five million for the year 2000. So it is not six million or 18 million or 12 million; the forecasts that are available today sit at around four million. The work we have done actually puts the number at around the 45 per cent penetration rate for the current class of technology.

For the US or for the world, the numbers range from 27 million to 94 million, so some numbers for future Internet use are lower than current use; and for the worldwide numbers, the difference between Jupiter, which is at 66 million for the year 2000, and someone like Killen, which stands at 250 million for the year 2000, is a four times difference in terms of projections. So there are no reliable, consistent projections out there. There are a lot of IT research companies that are trying to put the numbers together, but we really do not have anything that is reliable or consistent.

If we look at electronic commerce numbers—those were user numbers, not electronic commerce—Forrester Research is sitting at around \$327 billion in the year 2002 and Paul Kagan sits at around \$11 billion for the year 2007. The real problem is that, again, they are including different things in their numbers. People like Forrester, for example, start off including all the routers and equipment purchased by Internet service providers within their e-commerce numbers. But I put to you that a lot of these numbers are already included somewhere else—in hardware sales by manufacturers, in networking sales and telecommunications sales.

The problem with Internet and multimedia is that a lot of different organisations find it convenient to reclassify expenditures into a particular category to make that category look bigger. If we include every single PC sale into the multimedia numbers, we can say multimedia is a really big industry. But that does not necessarily mean we are using all that technology for multimedia.

With on-line shopping, the numbers vary just as much, from, in the USA, Commerce Net/Nielsen saying that 15 per cent of the people use on-line shopping to Survey.Net saying 50 per cent—a factor of three. Again, I put to you that these numbers are reasonably difficult to bring together.

In terms of demographics of Internet users in Australia, let us put together the picture as best we know it. Consumer and small office/home office users stand at around 540,000. That is a reasonably robust number of consumer and SOHO dial-up users. Business and government, in addition to all this, have around 11,000 leased line connections or permanent connections between them and an Internet service provider, so there are about 11,000 locations which are permanently connected to the Internet today. They represent around 450,000 users, including dial-up users within locations, that are business and government. So commercial use is around the million figure.

Academic use, on the other hand, is sitting at around 450,000 to 600,000. There is

a range in this number because there is a lot of academic, TAFE and university users that also have a commercial account and have commercial access, so you cannot count them twice.

For business purposes, the best estimate is about 30,000 business developed web pages or web services out there, plus almost as many directory listings. So 60,000 of Australia's companies have an Internet web presence today. Some people would say that there are 500,000 businesses that really operate in Australia, some people would say 900,000, depending on the definition of agriculture, non-employing. But the number of people who are out there is between 30,000 and 60,000, depending on what you are including.

Concerning Internet growth, however, we have gone down from 12-odd per cent per month a year and a half ago to between two and five per cent per month, with the consumer market growing slower and the business market growing slightly faster. This is compound growth. It looks reasonably small but it is still pretty high compared to most other industries around here. If it went at around three or four per cent per month, we would be looking at an 80 per cent increase over the year.

Traffic growth, however, is keeping on trucking. The number of users is not growing as fast but the users who are on there are doing a lot more and the content they are looking at is a lot richer. That has been one of the fundamental changes we have seen in the last six months in Australia: the people on there are doing more even though the numbers are not swelling up. They have finally become comfortable with doing things.

In terms of age, the bulk of them, 70-odd per cent, are between 20 to 49 years of age. They are not very young, they are not school-age kids, even though there are a lot of school-age children using it, and their percentage is growing. The bulk of them are older than you would expect. That is the first demographic.

The second demographic is that the component that is female is about 20 per cent of the regular users. In terms of the total number of people who have access to the Internet, it sits at around 30 per cent. The demographic, in terms of male/female, has been changing in favour of greater female participation, but overall it is still skewed.

The third demographic concerns education. If we look at TAFE education, it is pretty big in there but university education and postgraduate dominates. That is just under 50 per cent. Internet users are relatively skewed compared to the average population because they have higher education and they have made it past secondary school and TAFE into higher education.

In terms of income, incomes have been coming down. This is less than \$30,000 per year. Up here we have \$150,000-plus. The median is around the \$55,000 to \$60,000 per year as household income. They make a lot more money than Joe Average.

In terms of what they use the Internet for, the primary use is the white bar and the secondary use is the red bar. We have e-mail as one of the main things that they use it for. Software downloads is not a primary activity but overall a lot of people get their software through the Internet. We have entertainment as the third highest category.

News and reference is not a primary activity but overall it has a significant amount of use. Business research has grown significantly. There is education, experimenting, and chat. Things like shopping and financial transactions simply do not record anything as a primary activity. People do not get onto the Internet to do shopping or banking; it is a derivative activity.

In terms of what has happened to Internet users as they have been using the Internet, one of the first things we see is that they watch less TV. Around 55 per cent are saying they watch less TV today than before they started using the Internet. A very small percentage say they are watching more. That is the blue part. Watching videos is down, and sleeping is down. Overall, sleeping is down 30-odd per cent. Spending time on the phone overall is down as well.

Newspapers have become an interesting category because we are seeing a significant number of people saying they are reading more newspapers now that they are on-line, although they are outweighed by people who are spending less time reading newspapers.

This is sports and exercise. Sitting behind the computer is not necessarily conducive to doing more sports and exercise. Listening to the radio was interesting because it was the only category that went up, mainly because you can have it playing in the background, and you probably need something to entertain you whilst you wait for things to download. It gives you a sense that things are maybe going faster than they are. Going to the movies was dead even in terms of increases and decreases.

In terms of the business models, however, the real issue is that, if we look at the Internet as publishing, which is just one facet of it, things like pay-TV, magazines, newspapers and free-to-air TV have reached equilibrium between the percentage of the revenues they get from subscribers as opposed to advertisers. Free-to-air TV gets almost all its money from advertisers, whereas pay-TV gets most of its money from subscribers paying to connect.

On the Internet, the publishing models go across the entire spectrum here—you can be anywhere at the same time. In fact, there is the third dimension which says that the publisher is actually paying some of the money, or losing some of the money. That is the

reality of Internet publishing today. There is really no set business model for where people can sit. That is the publishing side.

If we look at e-commerce, or Internet commerce—Internet commerce is probably a better definition than e-commerce. The main thing we can actually do is define the scope of Internet commerce. The three-by-three box in the middle is consumers, businesses and governments buying from each other and selling to each other.

The transaction is a very small component of the overall Internet commerce game, which starts with demand generation, whether it is on-line advertising, off-line advertising, E-mail advertising and news distribution through to information source selection and retrieval, your search engines, your navigational hubs, your search agents—things that find other things for you; if you haggle for your products, whether you need legal and management services, whether you want to barter, finance or distribute the products; the transaction itself; product support and monitoring, so if I sell products, I want to get some feedback from users, I want to see how it is going, look at sell through numbers from my retailers or distributors; relationship management; service and registration; and through to non-electronic purchasing support. That probably covers a reasonably broad scope of activities.

The problem with Internet commerce is that every time you start talking about how big it is, different people are putting up different numbers. For example, if I am talking about Internet access and it is almost over a year but it is somewhere within this equation here, if you drill back—I need to pay \$20, \$30 or \$40 a month to connect and Internet service providers make capital investment decisions, acquire hardware and software—if I am counting all of those purchases as part of electronic commerce I may be distorting the picture a little bit. Regardless of what I count, though, what we know is that people are not consistent in saying what is included and what is not included.

It is very easy to run spreadsheets with exponentially growing numbers and say it is going to be so many billion dollars, but definitions become very critical. There are a couple of questions: what is incremental and what is to be counted? So the question would be: is it the ordering of products; do I want to count the ordering of products in my Internet commerce numbers? The answer is: if I am just replacing the telephone, the fax, mail or some face-to-face encounter to give you a purchase order or a quotation or to get a cheque from you or something else with the Internet, it is probably not a big deal.

There are some categories where, if I download the software with the Internet and the transaction is completed, I have done something new. But overall, when people say business is going to be very big, most of what is happening is really no big deal at all. That is really important. If you compare it to faxes and telephones, we do billions, if not trillions, of dollars world-wide on faxes and telephones in commerce today. So when someone says Internet commerce is going to be \$100 billion dollars, I would say that is very small; that is a very small number in comparison.

The question is: should investments in hardware, software and the Internet count as part of Internet commerce? The answer is probably not. Should the government be doing more? The analogy we gave at the last meeting was: did the government do anything when faxes and VCRs were introduced and when we had Betamax and VHS fighting out for domination as to which should be a standard? If the Australian government had stood out and said, 'We think Betamax is the best solution and we will only have Betamax in this country,' we may have looked reasonably silly now. It was probably the better technical solution, but the fact remains that, world-wide, it is just not there anymore. So that is one of the issues.

Is there a new way to cheat the tax system? The question I would put is: there are many issues associated with the Internet but what is changing fundamentally? The key issue of the tackle association—people sending invoices or shipment advice notices with incorrect amounts on them—is really not an Internet issue; that has nothing to do with the Internet. If people are going to lie, cheat or avoid tax or do illegal activities, that is not driven by the Internet; nothing is changing. Will some people make money out of this whole Internet thing legally or illegally? The answer is almost certainly yes—as with almost everything else out there. Again, it is not really a big deal.

Let us look at the details of who is shopping on-line in Australia. If we go from June 1996 to December 1996, and June 1997 to December 1997, the percentage of people who have tried on-line shopping in one form or another—whether they intend to do it again, or whether it worked or not—has gone from 18 per cent, to 23 per cent, to 29 per cent, to 43 per cent. And this is representing 43 per cent of the regular users, not the total users.

If we actually look at what product categories they buy, non-educational software has been the key product category—and this series goes forward in time from December 1996 through to December 1997. Books have been the highest growing category. There are a lot of people buying more books on-line. Music and magazines have been steady. Games have actually gone down a little bit. For clothes we got our first data point here at about the five per cent mark. For educational software and classified information—a very small percentage are buying PCs on-line—it has been growing slightly. Stock information has been going up—and I think the Telstra float would have had something to do with getting people's interests up there. Flowers, tickets, travel, food and wine are also included.

So these are the categories that we measured. If you look at the difference between males and females—with males being in the blue and females in the pink—males are doing a lot more shopping in most categories. But in comparison, females are very high in books. They are also very high in music, concert events, travel tickets and clothing. We are seeing a very significant difference between male and female shopping on-line. It is interesting to point out that according to recent research from America On-line, the biggest on-line service provider in the world, their top selling category in 1997 was not computers

or computer gear, but clothing.

That does have some implications for Australia. If we look at the price category of how much people had spent in the previous 12 months—and that is \$1, \$10, \$20, et cetera—the key price categories with things that went out was \$150 to \$500. That has been the category that has grown the most. The other categories have been reasonably steady. There have been slight increases in the \$500 and \$1,000-plus categories, but overall it is quite small. That is driven by people who have shopped more than once. In terms of the dollar amounts they have been spending, they are living in the high ends. So for people who shop more than once, as opposed to the ones who have shopped once, or who intend to shop, the spending has been quite high for the people who have been repeat users of this stuff. So we can expect exponential growth in these numbers.

What does that mean? In the categories overall by dollar value for people who have been spending the most amount of money, the key products that they are buying are computer hardware, travel tickets, on-line classifieds, stock quotes and wines. So it is different from the overall things. Books and CDs, music, and so on, are not that big a deal, and we will show you why.

People have been shopping on-line primarily because they want to buy things that are not locally available—that is this column here, by category—and that is about 45 per cent. They want to buy things that are not locally available, and the red bar represents people who have bought products more than once. After buying things that are not locally available—this thing here says, ‘just to see if it would work’- people who have tried it once and who are experimenting or trying to see whether on-line shopping would work are likely to try it again.

In comparison, saving money is not as significant. It is about one-third of the size in terms of the reason for people to do on-line shopping as buying something that is locally available. So they are not doing it just to avoid tax. There are other things, such as shopping after hours, getting it faster, or not going to the store, but they are quite small.

So as an example, to buy books from Amazon.dot.comm., we took the five books in the top 10 of Dymocks that we could find on Amazon and we priced them yesterday. These books at Dymocks ranged from \$A22 through to \$A14.95, with an average price of \$A18.75. With Amazon the same books ranged from around \$US6.39 to \$US11.29, with an average \$US9.75. The apparent savings at an exchange rate of 75c to the \$1 would be around \$5.75, and at 65c to the dollar—which is where we were a couple of weeks back—it would be \$3.75. It looks as if you are getting an apparent saving of 20 per cent to 31 per cent.

You have three choices on face value. You can have it surface mailed, which will take you 10 to 12 weeks. That is a very long time. That can be three months. You can send it by World Mail, which is seven to 21 business days, or DHL express. Each one of

these carries a slightly different price range—\$4 for about two boxes of books, \$7 for six boxes of books and \$30 for six boxes of books. If I wanted to buy one book and have it airlifted to me within the next four days, to really break even it would have to cost at least \$US140 for me to be ahead. That is a pretty high number. These numbers obviously go down the more books you buy because you are aggregating. Even at the lowest amount for air express, even if I bought eight books, the books would have to be an average price of \$US40 for me to save some money on them. So if I am trying to buy \$20 books, I do not get any savings from airfreighting them. I probably do not get any savings from World Mail but, if I am prepared to wait three months, I could save. I can go as low as about \$10 and be happy and ahead if I am prepared to wait three months for the books to be surface mailed to me.

This chart is just the break-even position. The only times you break even is if you want one book to be surface shipped to you. You will get a saving compared to buying it locally at Dymocks for the top 10 books. That is it. The reason you go to Amazon is for the convenience and finding a book you are unlikely to find locally. That is the main reason people buy on-line in the book category.

If you look at CDs, it is a very similar story. If I buy one CD, the shipping cost is more than 50 per cent of my total invoice to have it shipped to me from CD Now. If I buy two, three, four, through to eight, it is coming down to around the 20 per cent mark. But even with eight CDs, I am paying the equivalent of 1.6 CDs—like almost two CDs—in shipping. So the saving might look reasonably large, but it is still costing me a lot of money to have it shipped to me.

The best example in terms of the total number is an order I made for five books from Amazon two days ago. It cost me \$US50 for the books—about a 20 per cent reduction—and \$US38 for the shipping. I would never be able to find the books in Australia.

That takes us onto a couple of questions we have. Future directions are pretty hard to judge because this environment is growing so quickly and the technologies that make it up are changing so quickly. We are getting a convergence of different technologies coming together that are having a multiplicative effect. This is very hard for people like the Australian Bureau of Statistics to monitor on a monthly or quarterly basis. It would actually be prohibitive in cost for them to monitor that. You almost have to wait for the market to settle down.

In terms of businesses and where they are coming from, it does appear that businesses out there are sceptical. For businesses who have had a web site for a significant amount of time—that is, more than six months—their return on investment from what they have been doing on the Internet has been 10 per cent saying negative returns, 45 per cent no return and around 15 per cent saying a return of less than 10 per cent. There are not a lot of businesses who would actually throw all that money away without expecting a

return. So the people who are out there are reasonably sane. I think they are being reasonably realistic in terms of their expectations of how much they are going to make out of this Internet activity. Australian businesses overall, will face a structural issue as to where they fit into the new value chains that are being created. This will vary on an industry by industry basis.

One of the few things the Internet does give us is pure price competition. An example of an Internet commerce application would be airline ticket purchasing. Until we get Qantas and Ansett fighting tooth and nail on price on the Sydney to Melbourne and Sydney to Canberra routes, it is not going to make a lot of sense for me to do my ticketing on-line, because it costs the same as dialling 13 13 13. But in the United States, where I have a lot of different routes and opportunities to save money by going from LA to New York taking two or three stops along the way, it does make sense to go through and look at a good bargain in terms of pricing of products. That is one angle in terms of the saving money issue.

Product selections? Why not? In terms of government and private sources of information, I think there is a lot happening, but the real issue is that people want free information. There is no information deficit out there. I think you will find most of the commercial companies in this room do have access and have spent money on research. The problem is that there is not a lot of free information available for government and business to have access to. I think DOCA is probably the best example of that. They are responsible for most of the policy here but I do not think they have had a budget to do anything in terms of research.

CHAIR—Thank you. Ladies and gentlemen, could I also introduce our colleague David Beddall. Are there any comments?

Mr FORD—I have a comment which is really in two parts. The first is that a site which I got on to through OECD—I do not think it is an OECD estimate, but it is an estimate that is prepared for the OECD—suggests that the volume of business to business electronic commerce greatly exceeds that between business and consumers and that this has implications for policy, suggesting that issues such as authentication and certification, digital signatures, trans-border dataflows and so on are the ones that governments should be concerned with. I would invite comments on that.

The second comment is that this site and another one in the US support much of what www.consult has told us in terms of the widely varying estimates, but one figure which did stand out, and I would be interested in comments, was one on the OECD site which said that, although electronic commerce is currently very small, it is growing rapidly and will continue to grow rapidly. They put the figure at 200 per cent annually.

Mr MARZBANI—Two hundred per cent is actually a small number compared to total traffic growth on the Internet. Electronic commerce (again depending on definitions),

if we include things like EFTPOS, credit card transactions and foreign exchange transactions that are happening electronically, is in the hundreds of millions, if not billions, of dollars per day already in Australia. So I would put forward that some of the work that has been done for the OECD may not be complete in its addressing of the issues. If Internet commerce grew by only 200 per cent next year it would be a very bad year all round. I would say that that number is very low.

Senator CROWLEY—Could you give us a weighting between what seems to be, from what you are giving us, conflicting evidence? For example, when you talked about people zapping into Amazon for books, it very quickly became clear that it is not a necessary economic benefit. It is convenience, it is for products you cannot get at home, it is for a few other reasons—anything but economic.

On the other hand, you talked about airline tickets for people doing business and so on, and that they would be looking at it in terms of some kind of cost benefit to them. Those would seem to be two very different stories about how this is being used. Can you weigh that up for us? Can you say to what extent people are prepared to trade dollar benefits for convenience, to get something that you cannot get here, or whatever? It seemed to me that sometimes you wanted to talk about the economic benefits and put aside the other very compelling evidence you gave us that people are using the Internet for other than economic benefits.

Mr MARZBANI—The economic benefits—people's primary motivation being saving money—is one-third as strong as getting products and services you cannot get locally. That is the rough proportion. The Internet users are fragmented, so the people who are looking for different types of products have got different drivers. For example, financial services and on-line banking is almost all about convenience. It is not about getting lower fees. It costs you more to do Internet banking than phone banking because you are paying your Internet service provider, et cetera. So it does vary.

In terms of conflict, I was trying to point out that, in Australia today, we do not have the opportunities in many product categories for price competition. As such, consumers are unlikely to be using products and services that address those industries to save money, because they are unlikely to find price competition at the end of the line. That is the key perspective. In the US they are much more tuned into price competition and using the Internet for bargain hunting.

CHAIR—Is that price competition failure because of our wholesale sales tax regime or is it because of the paucity of Australian web sites?

Mr MARZBANI—Price competition does not really exist in Australia because of oligopoly behaviour in almost all industries, with a few exceptions. If you look at on-line advertising today, the two biggest categories which advertise on-line to establish, manage and maintain their presence are financial services—the best example being FAI's offers for

10, 20, 30 or 40 per cent discount on various types of insurance around Australia—and IT hardware services. It is a competitive environment and there is price competition. In most of the other industries we are not seeing price competition. They are not in a hurry to do a lot of things on line until someone really forces them to or until oligopoly behaviour comes under threat.

Mr GRIFFIN—You made a comment earlier about the question of an illegal act committee for the Internet. You mentioned the fishing tackle issue. The fact is that when it comes to fraudulent activity and the question of the value of trading activities on the Internet that will happen anyway.

What about the issue of opportunity costs—that is, because the opportunity is there to do it, it will increase. It is like the issue of shoplifting. It is more likely to occur in a more open environment where there are fewer controls that are obviously available than in a situation where it is a more controlled environment. The whole nature of the Internet, in terms of the capacity to easily order from overseas and therefore avail yourself of the opportunity of avoiding taxation, et cetera, will lead to increases in this area and those increases are related to the Internet.

Mr MARZBANI—I would actually put it to you that the reverse is correct. By that I mean that for me to actually get a fishing tackle box that I paid \$2,000 priced at \$200 when the invoice comes in there would be a need for manual intervention on behalf of the overseas or third party. With most computer generated invoices and documentation coming from the Internet you would have a very tough time putting in a new field that says, ‘Whatever price you want then type it in here and that is what we will put on the form.’ That sort of stuff does not really exist.

I would say that, in terms of the fishing environment, the only thing that is happening is the difference between my looking at a catalogue and making a phone call or sending a fax and doing something on line. I would still have needed to have transmitted some message to someone in some way saying, ‘Please break the law and mislabel this package coming in.’ I would say, in terms of policing, there really is not a lot more you can do.

The current wholesale sales tax and duty regimes do encourage activity in certain product areas. I think it is more a case of a lot of consumers saying, ‘I think what I do in Australia is a rip off. Even if the shipping cost is the same I would rather do it some other way.’ That is the protest vote. It is not that big but it is out there. Like most things on the Internet, it is not that big. It is happening with less than 10 per cent of households today and they are not even regular users.

Mr WATERS—I am not sure whether Mr Marzbani is going to be with us this afternoon for the consumer protection and privacy session. I am wondering if he could briefly now say what the research tells us about consumer concerns about those issues.

Mr MARZBANI—I will be here this afternoon and I am happy to address it then. Internet users are not that concerned with government censorship—that is, they do not really want it. Most of them would think that parents should actually be responsible for what their children see or no-one should be involved with censorship. The concerns with junk mail are increasing slightly but privacy concerns have always been very big, around the 15 to 20 per cent mark, and they are the second or third biggest concern of Internet users after the costs of on-line access, which is the main one. There are serious issues that do need to be addressed at some stage.

Mr BEDDALL—One of the things that was put to us at another hearing was the fact that Internet shopping has taken off in the United States more because there is a culture of catalogue buying.

Mr MARZBANI—That is correct.

Mr BEDDALL—Australians have not ever had that culture. Perhaps the Internet user in Australia is a different creature to the one in the US.

Mr MARZBANI—I would say that that is partly correct. There have been some reports that Australians may have done a lot of catalogue shopping 60 years ago or 50 years ago, especially in rural communities. But there is certainly a trust issue right now. For example, people in South Australia, Tasmania and to some extent Western Australia do not trust Internet shopping. They are really not comfortable with any sort of financial transaction on line, as compared with the other states, whereas in places like the Northern Territory they are very, very happy with things like Internet shopping—mainly because they have been forced into doing deals remotely to try and procure products. So consumer behaviour does vary widely by state, by age, by experience level on the Internet. That seems to be the primary differentiator.

Senator COONAN—With the difficulties you have described of doubling up on both classifications and categories, I am having great trouble in actually getting a handle on what the potential for growth in the Internet really is. It is of particular concern, I suppose, for everyone in this room. We are all concentrating mightily on how we should appropriately respond to this and whether it should be a staged response, or how we can really do something in the national interest to give Australia a competitive advantage. From the information you have given us I cannot quite work out where we stand. There seems to be an element of the ‘emperor’s new clothes’ in electronic commerce. Do you agree with that, or do you think that there really is some way that we can get enough data to make informed decisions?

Mr MARZBANI—There certainly is a way to get enough data to make informed decisions. It comes back to the issue, however, as we said, that there is a lot of hype out there, there are a lot of press articles, there are a lot of numbers that get bandied about without any definition of what they include. I think the best example was the work that

the ABS did versus Neilson, saying that there are 10 times as many Internet users out there. Obviously, the latter report has got some deficiencies in the way they have done it. It is impossible for us to have 3½ million Internet users in Australia. We know what the base numbers are; we know what the growth numbers are; we know what their problems are.

For example, the reason we are not getting businesses connecting to the Internet is the relatively high cost of establishing a permanent connection between the enterprise and the Internet. For about \$2,000 a month in Australia you get roughly 128 kilobits per second. In the US for the same amount of money you would get roughly 1,500 kilobits per second. This is a differential of around 10 times. No amount of extra hard work by us is going to change that. That is problem No. 1.

Problem No. 2 is that, even within the business environment, which is really what has fuelled the growth in the US, we have got reasonably consistent pricing. In Australia for the top 20 Internet service providers, for the very same 128 kilobit per second connection, the difference in price between the cheapest and most expensive in the top 20 is three times to six times—just within Australia, just within Sydney, for example. Someone can charge \$6,000 more than someone else for roughly the same service. So it is a very immature industry. That is what makes it hard to actually come up with numbers. That is why a lot of companies like Gartner and so on do make a lot of money trying to track these things, trying to get indicators of which way it is going. Just knowing roughly which way it is going is sometimes worth enough money for people to make decisions.

The real question has been—and this is a criticism we have had of DOCA for a very long time—that whilst they have been involved at the forefront of a lot of policy debate, they really have not extended their efforts into actually securing good research. We would like to criticise them in this environment right now. They have had speeches prepared for a senator saying that three per cent of all retail transactions in Australia happen over the Internet. That is clearly incorrect.

In fact, I would say, ‘Look inside, look at the people within your departments who are responsible for decision making and where they have come from.’ This is not going to get me any favours for saying it, but I think someone needs to say it. People are really happy sitting there saying, ‘I think it is this; I think DVDs are great. We have got to go this way.’ That is really some of the things that do happen out there, and it is all about trade shows and PR and not about hard analytical work.

CHAIR—I want to ask a generic question of the whole table. Is there anyone here who believes they have more accurate information on the topic that we have been discussing for the last hour than Mr Marzbani?

Senator CROWLEY—Mr Chairman, I wondered if there were any departmental people who might take up your offer.

CHAIR—They are here.

Senator CROWLEY—Yes, I know. I am just trying to actually to bid some of them in to comment about that last line.

CHAIR—Does anybody want to put their hand up?

Mr TODD—Concerning the opening comments made by Mr Marzbani, the point was made we have actually retained www.consult to undertake this work for us.

In terms of the government's position, under the investing for growth statements it was clearly recognised that we have a problem in terms of statistics for e-commerce, and one of the planks of the business on-line initiative was to get a better statistical base. Probably all parties around the table would agree that we simply have not got an adequate base to work off. It is very difficult with an emerging industry.

Mr Marzbani, in your presentation, to some extent, you played down the benefits of business to business as opposed to business to individual consumer or business to government or other combinations. I suppose if one takes a very broad definition of e-commerce then we have seen industries like banking being pretty well transformed with this technology. Could you comment on that?

CHAIR—Quickly.

Mr MARZBANI—The bottom line is this. With EDI, airlines and car manufacturers mandated that their suppliers and upstream and downstream players go electronic for communications to make things clearer and easier and to get rid of errors. We will see a lot of that move onto the Internet. But it is no fundamental change: we are not going to make more cars or sell more cars because of the Internet. That is the bottom line.

In most of the industries where they needed the technologies they have put them in. We are not going to see a shift towards smaller and smaller industries, medium sized players, getting involved with electronic communications and transactions to achieve cost savings. Most of that is going to be in terms of operational cost savings for enterprises. It is not about creating more cars or building more cars; it is about getting rid of inventory.

Mr TODD—Those operational cost savings are absolutely fundamental for business survival and industry survival. So, whilst it has been going on for decades, in many ways these technologies are incredibly important in terms of driving those operational cost savings.

Mr MARZBANI—Sure. In most of the big industries where they had the really big amounts of money to save, they set up their own networks. They set up the EDI

network and they played it. This is just about a little bit of extra stuff on the side; it is not about something radical.

Mr BEDDALL—I want to comment on one of the problems that has not been clearly identified with the Internet. You mentioned fax before. Fax was not a quantum leap. We went from a phone number to a phone number. One of the problems that people have in interacting with the Internet is getting into it. For example, with ‘Amazon.com’, if you type in ‘amazon’ you will get seven million hits and you cannot actually get to something unless you have the signature card. How do you think that will be addressed by the industry in the future?

Mr MARZBANI—Today, people find their way to shopping sites primarily through search engines, searching for things through on-line banners, through e-mails they get from their friends and from other references they pick up in print. Those percentages will change over time. We are going to see bigger brands being able to promote what they do and make people aware of their addresses. It is like me advertising my 1800 number or my 131313 number. You are going to find that smaller players will find it increasingly difficult to develop a brand name and be recognised out there. They are going to have to work much harder to get there and spend some money.

Mr STOLAREK—I agree with Mr Marzbani as to the critical need to separate business to business traffic from consumer behaviour. Business to business traffic is getting onto the Internet as an extension of the just-in-time technology, the Kanban technology, all of those technologies, which in the past involved specialist networks where businesses were connected with their suppliers, EDI and so on. That is gradually migrating into the Internet. We support the fact that Australia needs better statistics to separate the business to business cost down behaviour from true new business.

Mr Marzbani, this is a question that may help us all. I was struck by the item on your graph about people turning on the Internet specifically to shop. It was quite a low proportion, way out on the right hand side of the bar. In the US, with more secure shopping environments, would one expect that statistic to be different? Is the US average shopping experience, as a per cent of hits or turn-ons, any higher than in Australia?

Mr MARZBANI—The US numbers are higher but, in terms of people’s primary use being shopping, are not significantly different. People’s primary use is e-mail, entertainment, research, et cetera. It is not to shop.

Mr STOLAREK—The Internet as a magazine or entertainment rather than as a shopping mall?

Mr MARZBANI—E-mail communications being one of the biggest ones.

CHAIR—Ladies and gentlemen, thank you. We will bring this first session to a

close. It has been most informative.

Proceedings suspended from 10.05 a.m. to 10.17 a.m.

CHAIR—Ladies and gentlemen, I do not want to be an ogre but the time schedule has been set to give everyone a chance and to give the five topics equal weighting. I have to say that we, the committee, are surrounded with people who seem to have the most interest in this topic in Australia. It is critical that we get it right. There is no sense in saying we can drag the day out at the end. I am sure that many of you, like us, have aeroplanes to catch.

Issue No. 2 is taxation. The maintenance of Commonwealth revenue and the possibility of threats to the taxation base are key considerations of the Public Accounts and Audit Committee. The Australian Taxation Office report *Tax and the Internet* provides a useful starting point for examining the varied and complicated issues involving taxation and Internet commerce.

The ATO has stated on a number of occasions that the report is not a final position but an opportunity to advance debate on possible solutions. The ATO found that, in the short term, electronic commerce is not an immediate threat to the tax base, but it is important to research and discuss solutions to what will become a pressing issue for tax administration around the world. The ATO also commented that Australia was not alone in developing strategies to deal with Internet commerce.

The forum will provide an opportunity to comment on the various recommendations proposed by the ATO. Some of the topics for discussion include: the short-term threat in estimates of revenue loss; areas of revenue leakage; neutrality between conventional transactions and Internet transactions; the adequacy of existing taxation laws to administer Internet commerce; taxation principles; source residence and permanent establishment; offshore banking and tax havens; the treatment of electronic goods and services downloaded over the Internet; government coordination of agencies' responsibilities; international taxation laws; and international taxation agreements, progress and outlooks. Representatives from the Australian Taxation Office will introduce this discussion issue.

Mr KILLALY—Mr Chairman, given the number of points here and the bit of overlap amongst them, I thought I would just try and draw out the main strands and paint our perspective of how we are seeing this at the moment, with a view to drilling down as we need to and taking these points as prompts for questions and so forth. I think it is notable, Mr Chairman, that the Australian parliament is taking the approach that it is in terms of the scope of this inquiry. If you look around the world, there are not too many parliaments that are actually making a serious study of this topic. I think the parliament is to be commended on that.

The tax office, against the backdrop of all of our history of treaty policy and so forth, has a number of objectives that it seeks to achieve in the international area. First among those is the fair sharing of taxing rights between countries. That is evident in our double tax agreements and the balance between source and residency taxation. The second key objective we have is the identification of taxing points and taxable persons and the correct allocation of income and expenses in respect of cross-border dealings. Implicit in that are questions like access to information and reliable collection mechanisms.

The next key objective is the effective management of tax policy competition. This is not something that has been touched on yet, but it is very much part of the Internet context. Primarily that is directed at ensuring that investment occurs for business reasons and is not tax-driven. Full-blown competition would seriously damage our tax system, as it would damage the tax systems of any developed country. It is very important that we are conscious of the need to have an affordable policy set and that tax is the way that we fund that policy and infrastructure.

The pillars of international taxation are pretty well established. They lack clarity in terms of their definition, but primarily they are source, residency and, in a more general sense, a sufficient territorial connection with the country and a connection between that country and the taxing event. Things like interests, royalties, shipping, and risk events like insurable risks and insurable events, are not based strictly on source or residence; they are based on particular events occurring within a certain jurisdiction. Then there is the other head, which is the place in which the transaction occurs. They are the broad set of international tax principles.

Traditional approaches to trade were that trade should basically—apart from the transactional taxes—be free of tax as an activity. That is embodied in the concept of permanent establishment. Permanent establishment articulates that concept of the sufficient territorial connection to ground a taxing right. So the definition of permanent establishment is very important in moving from, if you like, generally tax free trade to a situation where a particular enterprise or person is perceived to have a sufficient connection and presence in the other economy for that other country to be able to tax them.

The other traditional approach is the approach that is taken by capital exporters compared to capital importers. Capital exporters tend to push the pre-eminence of residents' country taxing rights. Capital importers, since their contribution is actually taking that capital and employing it in some productive capacity, tend to focus on source country taxing rights and argue for the ascendancy of that particular head of taxation right. In the international context we have to strike a balance between those two taxing rights, and it is primarily looking at the positions of net capital exporters and net capital importers.

Looking at those principles and then looking at electronic commerce, what do we

see are the possible trends? First of all, electronic commerce is not occurring in a vacuum. Many forms of electronic commerce, it has been alluded to before, are well established. There is quite a lot of electronic commerce between banks, for example. Global trading is very well established there. There are a lot of related party or intranet transactions so that the definitional questions about what is electronic commerce become very central.

There is also a very clear relationship between innovation technology and profitability. Our expectation on the experience of the Australian economy there is that the take up rate of technology in Australia is fairly rapid. We expect that the obvious benefits of this technology for business generally will be soon realised and that business strategies will start to actually promote the use of this particular medium.

Technology can, for example, increase sales revenue of enterprises by giving them access to new markets. Also, it can reduce operating costs. For example, it can rationalise backroom functions like bookkeeping, mail ordering, invoicing and so forth. It can reduce operating costs through synergies, through greater access to skills, and through increased competition if we look at it from the point of view of a global market. I note the points about oligopolies existing in Australia, but here we are looking at a much wider set of players. These factors will inevitably influence business strategies, as we have seen with global banking and investment.

One of the questions in our mind is how all that will affect the pattern of investment. People in Australia will be able to place investments with Chase Manhattan in New York, or maybe even a bank in the Cayman Islands. It is in that respect too that a number of taxation issues emerge.

Trade in services is expected to increase fairly markedly. That is certainly the prediction coming out of the GATT agreement, and electronic commerce is a very efficient delivery mechanism for a whole range of services. It will have an accelerator effect in terms of things that are already emerging in the global economy. Business strategies will start to reflect this. We are already seeing the signs that those business strategies will start to actively advocate the take up of electronic commerce.

There is a need for us to manage the cash economy. There are certain aspects of the cash economy that are directly relevant to electronic commerce because it provides a vehicle for a far wider deployment of assets. Encryption provides the possibility of using undetectable locations and disguising the nature of transactions. These are all very real things. They are not peculiar to electronic commerce as other people have said, but there is the issue of the accelerator effect because of the wider access provided by electronic commerce.

There will be, we believe, an increase in access to markets and product services. In terms of how that is done, we can see elements of disintermediation occurring where direct sales cut out people who were previously brokers, distributors and retailers. But we

can also see new intermediaries arising, such as credit card companies and IP service providers. Across the whole spectrum of taxation we can see pluses and minuses. The things that enhance profitability should strengthen the tax base and the things that threaten the tax base, through recharacterisation of transactions or through the ability to place investments and assets beyond the reach of the tax system, are, of course, minuses in that equation.

We see that the system will play out quite differently in relation to large business and small business. Large business is, in a sense, already fairly well established in electronic commerce. The checks and balances in relation to that kind of activity are quite different from those that apply to very closely held businesses, particularly where those closely held businesses can deal with associated parties and entities offshore.

The other generality about the Internet, looking at it now, is that there are some barriers to its quick uptake. There are issues about security, confidentiality and people's ease with the technology. We believe that those barriers will eventually be overcome. There are so many positives about this system that I think there is a real market driver there that will cause those issues to be solved.

The other thing we believe is that the economics of this system are not linear. You cannot project some ready, steady uptake in the use of this system or in people's attitudes to doing business on the system. There could be exponential growth in a relatively short period. As administrators of the tax system, we do not want to be found wanting in not doing the forward thinking to best position the system and the country to ensure that we have that reliable cash flow to government.

The key objectives on our part are to understand the market, the existing and emerging trends, to understand the relationship between taxation and markets and to get a sense of what is really driving the particular activity that we are seeing—for example, the treatment of electronic goods and services compared to CDs and package software. There will not be an uptake in the electronic delivery if it is not convenient to the customer. That, at the end of the day, will be what drives the uptake of that particular aspect of electronic commerce and the delivery mechanisms that are used.

My experience is that taxation really does have to be in tune with the market. To the extent that it stands in the way of the market there are lost opportunities and there are huge compliance problems because the market forces are driving behaviours in a way that is inconsistent with the way the taxation system is headed. The best kind of taxation system is the one that aligns itself with that market.

Another key objective is to examine whether the existing concepts, as I have outlined them, and the administrative framework that we have in place allow for a viable taxation system in the context of electronic commerce. We are not pressing the panic button here but we are saying there is a need for a sense of urgency, particularly in terms

of awareness. We are not stating a concluded position but we are saying there is a need for a detailed study.

One of the key things we have to do is identify whether there are any gaps or unintended consequences in the way the existing system would operate in the context of electronic commerce. I am saying that quite neutrally. I do not believe that if there are huge economic benefits that a tax system can stand in the way of the proper functioning of the market, but equally we believe that there is a responsibility on our part to make sure that tax avoidance and tax minimisation are able to be properly addressed and that the taxing points can be effectively identified and appropriate tax collected.

Fundamental to all of these things, in terms of the way forward, is that everything is connected to everything else. Unilateral approaches on a country basis are not likely to be effective over the middle to long term. The tax office is strongly supporting the work of the OECD not just in terms of the committee on fiscal affairs but the other committees that are looking at things like encryption so that we can actually actively and objectively consider all the pluses and minuses of this system and come up with a balanced outcome.

Senator WATSON—You have mentioned that you are working closely with international organisations to develop some frameworks. At this point in time, are your recommendations, some of which have attracted a degree of criticism because of their onerous nature in terms of compliance, raising privacy issues, et cetera, in sympathy with what has been put forward by the revenue authorities in, say, the United States and within Europe?

Mr KILLALY—It is an evolving thing. I will just make a general comment on criticisms about what we are pushing for in terms of compliance costs. The gravamen of what you are putting seems to suggest that we are being criticised for suggesting that businesses ought to keep records of their transactions and the parties with whom they deal. That is essentially what we are looking for. I just wonder what type of a business people would be running if they are not keeping those kinds of records.

In terms of our positioning in the international area, people are still very much at the awareness stage. I guess we are one of a small number of countries who are actually trying to push this debate and engender discussion to see if we can actually tease out the real issues that have to be addressed.

You asked about the United States position on Internet and electronic commerce. That very much, in my experience, depends on whom you speak to. If you speak to White House people they will give you a certain view. If you speak to the US treasury they will give you a different view. The US treasury talks in terms of neutrality and being able to try to migrate existing concepts and approaches to the new environment. The White House seems to be talking more about a hands off attitude to the system entirely. I think the US needs to probably speak with one voice if it is going to be effective in that debate.

The European position is, in a way, more similar to ours in the sense that they are less the owner of the system. This harks back to attitudes about capital exporters. I use 'capital' in the broader sense of service provider and technology provider. In this situation, the Europeans would be concerned to preserve their existing tax basis. It is not about a revenue grab; it is really about seeing whether the existing frameworks can actually be applied in this evolving environment. I think there is quite a healthy debate and quite a number of different positions are being expressed—as the commissioner explained in the evidence before the committee last time.

Senator CROWLEY—I more or less understood you to say that it is best if the tax system aligns itself with the market.

Mr KILLALY—As long as it is not a tax avoidance market we are talking about.

Senator CROWLEY—Quite so. As I recollect, chiselled in the wall of the IRS building in Pennsylvania Avenue is a nice quote from Oliver Wendell Holmes that says, 'Taxes are what we pay for a civilised society.' I am not sure that is word perfect, but that is the sentiment of it. Firstly, to what extent should the market align itself with tax or government policy? From what you said I got the sense that tax policy should be there to serve the market, certainly not to intrude in trade arrangements and so on. To what extent should that go in the other direction? Secondly, one of the issues for discussion is the area of revenue leakage or estimate of the revenue loss. Can you give us any estimate of the loss and potential for revenue loss at the person to business kind of level and business to business level?

Mr KILLALY—Those are two very good questions, Senator. I do not want to be overinterpreted or underinterpreted. My comment was really about the efficiency of the tax mechanism and the fact that, a bit like King Canute, you cannot go and stand in front of the ocean with your hand up and hope that the waves will turn back. I am speaking from an administrative point of view now and my colleague Bruce Paine from Treasury can speak about the policy issues. From a compliance perspective—and I am talking about administration as well as the rule itself—if the tax system overlays the working of the market and fits in with it, you get the revenue that you need in sync with the way the market operates. You are not fighting against the market. You are not deterring business. You are in alignment with it. That was my point on the relationship between taxation and markets.

Senator CROWLEY—That sounds as though you are prepared to say that the tax people are very inclined to be sympathetic to the market. Do you also think that it is fair for the market to be sympathetic to the needs of tax?

Mr KILLALY—There does need to be a healthy balance there. I ascribe to the comment that you quoted from Oliver Wendell Holmes. Taxation is the price that we pay for a civilised society and business does get benefits in terms of infrastructure and

regulation. Even though business might not think that regulation is a benefit, it gives business probity. As we talk in this context about the credibility of the Internet and the confidence with which people will use that system, I think that is going to be very much a central point. I do think a degree of reciprocity is needed in the exchange of ideas and the working relationship that is needed between a good tax administration and a healthy market.

Senator CROWLEY—Do you have any figures for us?

Mr KILLALY—We have in previous evidence given a figure of \$10 million per annum. Earlier we heard the comments about the difficulties with projections in this area. We are talking here about risks to the revenue. I do not want to create the impression that, in an overall sense, we are going to say that electronic commerce is a net loser. We are saying that areas of risk emerge because of electronic commerce. I have also said that, having regard to the innovation, productivity gains and cost structure opportunities there, there may be an enhancement of profitability in some sectors and there is a need for a balancing of the pluses and minuses.

We are interested here on focusing on the risks at this stage and trying to deal with those and, also, looking at the opportunities not only from the point of view of the revenue itself but from the point of view of our service delivery as a department of government, making sure that in the service that we provide to taxpayers we can use electronic means to get faster delivery to them and that lodgment of returns is less painful. All those things—the opportunities for better relationships and less deadweight costs on the community—need to be seized in this context.

Mr McNAB—It seems to me that a casual observer might perceive a certain dissonance between comments of organisations like www.consult and the sorts of submissions made in relation to the tax office document, which suggests that there is a significant revenue issue here. I would like to suggest that those differences of viewpoint are thrown up by the difference between business to business dealings and business to consumer dealings. To me the significance of electronic commerce as a general concept is that it represents an opportunity for multinational enterprises and for significant organisations to change the way that they do business with one another. Not only do you have these concepts assisting businesses in dealing with consumers, but also these concepts change the way organisations deal within themselves and deal with other large companies.

I wanted to make that observation and just confirm whether the Australian Taxation Office sees that as the principal revenue risk in the areas like source, residency and so on.

CHAIR—Your comment, Mr Killaly.

Mr KILLALY—That is a very important distinction that the speaker makes, Mr Chairman. There is one other broader question I alluded to earlier: what impact will this widened access have on the pattern of investment by Australians? Access to all kinds of offshore investment products and so forth, if we do not have in the structure of our tax system a neutral approach to the taxation of those investments, may give some preference to offshore activity rather than onshore. Yes, there is an issue about intra-group dealings, if you like, or related party dealings, and we see that as significant, particularly in the small business sector. The pattern of investment question we think is a major one. We see the e-com, electronic commerce, trading as it has been discussed earlier today as barely emerging, although we see that it could take off fairly quickly.

CHAIR—To follow up, what is the size of that? When you talk about \$10 million as being potential revenue loss, are you talking about business to business or are you talking about customer to company, purchasing on the Internet? That is really what this inquiry is all about.

Mr MERRICK—Perhaps I can deal with that, Mr Chairman. An estimate of \$10 million in turnover was given in paragraph 5.3.3 of the report, at page 26. That was very much a provisional and tentative estimate, based on some drawing out of some other estimates. The specific finding on revenue losses is covered in finding 10 of the report. It is stated—and this is what we stick to—that there would be no immediate appreciable impact on tax collections. Electronic commerce is an extraordinarily dynamic environment and I think it would be a wise or a very brave person who put forward definitive estimates at this stage.

Mr McNAB—Is it the case that that estimate relates to trades in the sorts of goods and services discussed in the www.consult presentation, rather than business to business?

Mr MERRICK—It covers both, but the estimates in the report state quite clearly that the larger magnitudes are in the business to business dealings, rather than the business retail dealings.

Mr WALSH—I have a couple of comments regarding the tax office presentation. The first one is to commend the sentiments expressed. Particularly, the unilateral approach not being an effective long-term strategy and the need for a balanced outcome and neutrality I think are very important and very consistent with the way that my firm, Arthur Andersen, would think and consistent with the evidence that we have given to previous inquiries.

There are a number of issues, though, that I would like to raise. One of them is that some of the comments that are made in the presentation do need some further clarification from the tax office. For example, it is said that people in Australia will be able to place investment in Chase Manhattan Bank in New York. People in Australia can already do that. What is the electronic commerce issue, and what is the tax issue? If I earn

interest or dividend income from Chase Manhattan Bank in New York, my Australian tax position is pretty clear. I just do not understand what the fear is of electronic commerce, unless perhaps we are talking about some possible fringe evasion techniques and money not going from Australian residents to Chase Manhattan Bank but into some esoteric concept of cyber-space cash accounts or some such thing.

There are a number of those types of things that have been raised in the tax office report which give us considerable fear that we will see perhaps pre-emptive moves, legislative or otherwise, against those types of initiatives that have absolutely nothing to do with electronic commerce and are not founded in electronic commerce. Perhaps I would just ask for a response to that. I have some other comments that I would like to come back to.

Mr MERRICK—I would like to respond to that. The first issue, which has been shown to be important in studies on this topic, is the simplicity and low transaction costs potentially offered by the Internet. In other words, if it is possible to open an account in the Bahamas or whatever, log into it via the Internet and download some e-cash, all in, say, a couple of minutes, that may provide significant incentive for people to maintain bank accounts offshore. Currently it is a bit more troublesome than that.

I would like also to respond generally to issues about what we are doing to monitor the situation. Would you mind if I went through those?

CHAIR—Please do.

Mr MERRICK—We intend to commission another report, because we have a degree of interest in the amount of economic activity that is occurring on the Internet. We will commission a report on that shortly.

We intend also to include a yes/no question in tax returns for the next financial year about whether the taxpayer made any sales via the Internet. That should help to put some firm figures on the amount of trading that occurs that way.

We are also monitoring the level of compliance in businesses trading via the Internet, through audit activity. Jim mentioned the important impacts of intranets, particularly of large companies. This is a growing concern and we will have a look at those.

Also, we are considering the feasibility of a sample survey of businesses in what is called the com.au domain, to get more accurate estimates of the economic activity that is occurring. So we do intend also to work with other government agencies. So we are taking fairly active steps to ensure that what we are doing is keeping on top of the situation.

Mr KILALLY—Mr Chairman, there is another aspect of the comment that I think

I should refer to. Early on, when I talked about the principles or the frame of reference that we bring to this, and that is evident in the legislation that the parliament has introduced in recent years round things like control of foreign companies, foreign investment fund regimes and so forth, I mentioned the need to effectively manage tax policy competition, particularly in relation to tax haven activity. There is a concern among officials that investment ought to be placed for good business reasons and not be tax driven. There is a thread in the comment that I think raises that issue, and perhaps I will get my Treasury colleague, Mr Paine, to comment on that.

Mr PAINE—I do not want to stray into tax policy—as all of you would know, the government has announced a review of that—but at present Australia basically taxes the worldwide income of its residents. That is common with many OECD countries. Therefore, there is a concern to ensure that residents' worldwide income is taxed, and the tax office needs to take appropriate action to ensure that that is complied with.

I will just make a couple of general comments in response to an issue Senator Crowley raised before on compliance costs and the tax office. In broad terms, tax policy involves balancing objectives which often conflict. At the broadest level, those objectives are basically to raise revenue that the parliament spends on various matters and to make sure the tax system is efficient.

That can be broadly explained as saying that we minimise distortions to economic behaviour, that the system is equitable, and that we balance compliance costs for business and administrative costs for the tax office. There are some hard choices that are made there and the parliament grapples with them in almost every tax bill that comes along.

CHAIR—You are talking about neutrality and yet is it not a fact that, as some of the people around this table would complain or tell us, there is not currently neutrality? That is to say, if they sell a good in Australia, whether they sell it through the Internet or whether they sell it from their shop, if it is an imported good, for instance, they pay duty and they pay sales tax if it happens to fall in the sales tax regime. If it is not dutiable then perhaps they just pay sales tax, or they may pay neither.

In any case, those who pay both will be at a disadvantage compared to an overseas supplier who can supply those same goods or services through the Internet and through international transactions free of duty and free of sales tax. They would say—and I will say it on their behalf, just to be controversial—that they are placed at a distinct disadvantage, particularly where the sales tax rate is very high or the duty rate is particularly high. Would you care to comment?

Mr PAINE—Perhaps it is better coming from a statutory office holder than from a departmental officer.

CHAIR—That is part of what this inquiry is about. We are going to talk about it

this afternoon but let's call eggs, eggs. Some people have put it to this committee that their businesses are being almost destroyed.

Mr MERRICK—I was going to comment on another aspect which also needs to be considered. Some products, such as CDs, are taxable in one form but not taxable in another. When the bandwidth of the Internet supports that, people will be downloading music and that would not be subject to sales tax.

Mr KILLALY—There is a reality here that we are talking about direct sales from manufacturers to customers. We are talking about goods moving through the postal system directly to the customer. There are huge issues about effective compliance in that environment that I do not think can be minimised. I understand the issues that you are putting on behalf of people who are disadvantaged by that. I guess that is one of the issues as to whether that disadvantage is sufficient to warrant some kind of policy response by the parliament. That is an issue that they have to look at, whether there is another way of achieving neutrality in the system other than by going and knocking on people's doors and saying, 'Did you buy any fishing rods? How much did you pay for them? Where's the sales tax and the import duty?'

CHAIR—Let's take a hypothetical situation. Let's say that we are talking about a fishing tackle reel, if you like, which someone sources from a country in Europe where there is a GST. Let's say that Australia had a GST. This is really hypothetical.

Mr BEDDALL—At what rate?

CHAIR—It doesn't matter at what rate.

Mr KILLALY—You are starting to worry me, Mr Chairman!

CHAIR—It is a generic question, it really is.

Mr KILLALY—I was concerned about the policy implications.

CHAIR—No, there is no policy implication in my question whatsoever. You said we might structure the system better to cope with some of these differences. Let's say you were buying a fishing tackle reel from France, where they have a GST, and suppose we had a GST in Australia. If the fishing tackle supplier in Australia buys the reel from France, then it comes in GST free because exports are zero rated, but he has to put GST on it to sell it in his shop. Is that correct?

Mr KILLALY—Correct.

CHAIR—If, on the other hand, a customer buys directly from the supplier or manufacturer in France, he gets it GST free in Australia because it is zero rated out of France and it comes in under the current limit in Australia. So there is a neutral situation

where both companies, let us say, have an identical GST rate and identical circumstances and yet still would not the retailer in Australia be disadvantaged?

Mr KILLALY—I can see the arithmetical issue there that if the goods follow down one track through the distributor there is a taxing point whereas if they flow directly there is not a taxing point.

CHAIR—Have you got a solution for that because we really would be interested in it? This is not a policy question.

Mr KILLALY—We need to draw a distinction between the application of the tax law and the enforceability of the tax law because in both those situations you have got an import of goods. There is an issue about the thresholds, but they are built into the law and they apply on face value.

CHAIR—We will do that later.

Mr KILLALY—The question in that situation really relates to the ability to collect the tax because in both situations you have an import of goods and prima facie, leaving aside the threshold, there is a tax liability. From a tax administration point of view, if the policy was that tax ought to be levied in those circumstances, we would have to look for some kind of point in the system where we could effectively collect the tax most efficiently.

CHAIR—But how could you collect the tax from the French supplier?

Mr KILLALY—You may not be able to collect the tax from the French supplier, but you would probably have to analyse how transactions occur on the Internet and how they are funded—for example, who funds the trading which is the existing banking system and the credit card system. The issues that you would have to consider—I am not suggesting answers—is whether at some point, having regard to that flow chart of that transaction, there is an intervention point that would enable you to efficiently and effectively collect the tax.

Mr WALSH—I have a quick comment in relation to the sales tax issue. It really is an administration issue, it is not a legal issue. It is simply an administrative deal that goods will come in under the screen free limit to save administrative costs. This is not an electronic commerce issue.

I can order my fishing reel from France with a fax or a telephone call and give them my credit card number over the telephone and be in exactly the same position. If the concern is simply that the Internet will provide a marketplace that will expand that activity then I think it is going to come to the later discussion about the administrative process through which we deal with this.

I will also make one other comment that through the tax office reports on tax on the Internet there are a number of comments there about the sales tax base being eroded through goods being ordered offshore. I have to make the point that the sales tax on my \$4½ thousand IBM Aptiva computer that I bought in November will far outweigh the sales tax that I might not pay on the CDs that I might order from a US supplier. Something that is distinctly missing from the tax office analysis is any assessment of the increase in revenue that comes through, as the tax office pointed out, Australia's very high take up rate of technology. We pay tax on all that stuff.

Mr McKENNA—In our submission we strongly supported the position of neutrality. The discussion that has been going on is very interesting and relevant. To me it seems that the US is currently the major capital exporter in this field. I think neutrality is vitally important to enable ourselves, the Europeans and others to catch up and become at least strong competitors, if not capital exporters—to use that expression—in this field. Not only must we have the right tax structure in place but, as came out in the previous session, the costs of our Internet connections and the technical support that we have must be there.

It would be nice to see people like Telstra here to ensure that they were getting the message that Australia needs to be competitive in this field. It is not only tax but also our technical support and our Internet providers that have to be competitive. It is a broader question than just taxation, but tax is a very important thing and neutrality in the tax area is vital.

CHAIR—I will comment that we did have Telstra, Optus and British Telecom at a round table earlier and we thought it was not necessary to duplicate that effort. I do not know if I can speak for my colleagues, but I felt reasonably comfortable that we are unlikely to be left miles behind, despite some of the press articles that would indicate that there are some deficiencies in that regard.

Senator CROWLEY—If I am not buying a fishing reel but I am just shifting a couple of million dollars—I just happened to have a good night at the casino—one of the concerns is that there might be an exciting extra dimension if you wanted to launder your money. Certainly, I know in the past that it came as a terrible shock to the AFP or the National Crime Authority when they discovered that you could press a button and bang all your millions of assets were in a Hong Kong bank or in Switzerland or somewhere. Maybe the time has passed, but I remember hearing that sort of evidence from the National Crime Authority and they said that it was a major concern that it is easy to move money.

With the fishing rod or the fishing reel in the end you are going to have to open the package and it is going to arrive in a different kind of way. Money to money seems to me to be a different kind of beast. I wonder whether you would care to comment about that, and particularly in terms of what Mr McNab was saying before.

Business to business seems to me to be a very different kettle of fish from, say, somebody importing a fishing reel. You would need a lot of fishing reels to match some of the deals that happen business to business. What about within business when you might want to be downloading a large chunk of money to a subsidiary company? Do you have any handle on the numbers we are talking about? Do you have any fear that there are prospects here for different ways of avoiding taxation or is this like people have said about other things that it is not really too different it is just happening faster or easier?

Mr KILALLY—The last point is a very good point, Senator. Business to business is not such a big issue to us, I do not believe, as the related party transactions. In that sense, business to business is a major issue. I would also make the point that Senator Crowley could have actually won her money on the Internet because I understand that gaming facilities are available on the system.

It is not new that money can be shifted in nanoseconds—in fact, through a number of jurisdictions in seconds. The concern we have about the system is more at the forensic end of being able to trace the transaction, identify its nature and, hopefully, in anticipation, be able to intercept it if we need to.

There has always been a problem with moving funds around the globe. The concern we have here is that this will be more of an accelerator, rather than anything that is fundamentally new. The concerns we have are that encryption can facilitate the process of disguising the nature of the transaction and that the layering of transactions through the system can actually disguise the original source and destination of the transaction. It is those kinds of practical issues about tracing and matching that would be more of a concern to us.

Mr MERRICK—There is also the issue of electronic money. That is not yet a mature technology for easy use by ordinary people, but it is likely to become so.

Mr KILALLY—May I add one more point. There is a regulatory system that looks at flows between countries: the Austrak system looks at telegraphic transfers and cash transfers of various kinds between jurisdictions, including the customs regulations regarding walking out of the country with cash over a certain amount on your person. We do use that system as a profiling mechanism, from the point of view of looking at the countries; we profile tax havens through that system to look at the importation and exportation of funds and who is doing it. There are mechanisms for follow-up through those processes. But I do not want to understate the extreme difficulty in doing that kind of work.

Senator COONAN—I just want to ask for an update on the status of multilateral discussions about cross-border income sharing. You told us a little earlier about various options that were canvassed. I want to know whether any particular option has gained any favour. To pick up on your point that you are more concerned with related party

transactions, how would you approach ascertaining worldwide income for the purpose of looking at or applying any of those options?

Mr KILLALY—Another couple of easy questions, Mr Chairman!

CHAIR—We don't mean for it to be easy for you.

Mr KILLALY—On cross-border income sharing and how that is progressing, first of all: the current debate at the OECD is really at the stage of raising the awareness of many countries and seeing if the existing concepts can help us to actually apportion the income, expenses and profits amongst the various countries participating in the transactions.

People also have an eye to the trends. I think the emergence of export in services, for example, will be a significant feature because tax treaties, by and large, do not address trade in services as such, unless you have a fixed presence in the other country and you are actually supplying the services in the jurisdiction. That will be a big issue as this system develops but I think that would have been a big issue anyway. But this system will be the means by which you can actually supply a service from a distance. That is just one example.

The OECD, in its working party No. 1 on treaties, is looking at these questions of services. It is looking at the definition of permanent establishment, to see whether it is robust enough, and it will come up with a view and a commentary about how the rules, the existing treaties, ought to apply in this new environment. It will then be a matter for each country to apply its bilateral treaties in accordance with that understanding of what those existing provisions mean in the context of this new phenomenon.

The second question you asked is how we determine the worldwide income. This raises the issue about another working party at the OECD, working party No. 6, which looks at multinational enterprises and transfer pricing. There are established mechanisms by which you allocate economic value to the functions, assets and risks that are performed in each jurisdiction.

It is important to international trade and investment that you get uniformity globally in respect of those approaches, so that business investment can proceed in the confidence that people know what the rules of the game are. There is a concerted push at the OECD to come to an agreed view of how that should happen.

Your question, though, really focuses on the evidentiary aspect of quantifying the income in the first place. I would say that that is fraught with difficulty, because a lot of multinational corporations will actually keep some of the information away from authorities so that you do not actually see the complete picture of the global integration that is actually happening.

Senator COONAN—Particularly in related party situations.

Mr KILLALY—What the administration has to do in those circumstances is to do a one-sided analysis. You start with the real business within jurisdiction. You look at what it is doing, its functions, assets and risks; you try and price those according to the economic and market conditions that are prevailing in the market in which that business is operating; and you do a one-sided analysis. It is not as good as being able to look at the whole operation, and you do run the risk of double taxing the business because another jurisdiction might actually be taxing some part of that same value that you are taxing. But if multinational corporations do not put all their cards on the table, it is difficult to see what else an administration can do.

Senator COONAN—It would be diverting, to say the least, to see how this was going to be shared.

Mr KILLALY—My colleague Mrs Pickering would like to add something.

Mrs PICKERING—This is on progress in the international field. As I think our commissioner, Michael Carmody, mentioned in some of his earlier evidence, there was a major conference held in Finland in November last year which looked at many of the issues, including taxation—he chaired a tax day there. Coming out of that conference was a decision to hold a ministerial level international conference in October this year and to present at that conference a framework for a range of issues, including taxation and how the OECD would propose to deal with these issues. We have not yet got as far as working out exactly what the principles will be or how they will be applied, but hopefully by October there should be some kind of at least broad framework for taxation matters.

Senator WATSON—Mr Killaly, aside from the need for a universal agreement on the sharing of cross-border transactions and within corporate structure cross-border transactions, in a technical sense could you identify for me the weaknesses already in the Australian taxation system which you have discovered in relation to the problems with the Internet?

Mr KILLALY—I am in a bit of a quandary as to how to explain, in a public forum, the weaknesses of the current system.

Senator WATSON—I said ‘in a technical sense’. Obviously there may be need to amend certain provisions, in your mind. I do think we need to identify where these weaknesses lie at the present time, aside from the cross-border problems that you have mentioned.

Mr KILLALY—I wonder if I could deal with that in a more general way.

Senator WATSON—Maybe you would like to take it on notice. I do think it

would be helpful to the committee.

Mr KILLALY—In a more general way: we talked about the issue of neutrality previously, and—

Senator WATSON—Yes, but that is all fairly vague stuff. I wanted to try and identify the current weaknesses that you perceive.

Mr KILLALY—I think we need to take that on notice and maybe advise the committee in another way, but there is a question about the existing law. Even though you move into a different set of provisions, for example, by recharacterising something from a good into a service and therefore fall into a different taxing regime, there is a fundamental question as to whether that is appropriate or not, and I think that is a policy question.

CHAIR—Could I ask that if you have a more succinct answer to that question you might like to provide the information to the committee in confidence?

Mr KILLALY—I would feel far more comfortable with that.

Mr STOLAREK—I would like to add to Mr Killaly's comments and help to define or segment the tax issues to assist in adding some clarity here. The first observation I would make is that, in relation to the allocation of profits internationally, Mr Killaly heads the tax office's transfer pricing responsibility and in that context there is a long, ongoing and vibrant interaction—sometimes with heated words—that we have with the tax office on transfer pricing. Related party transactions and national and international allocation of profits is a well-known area. For example, we already have large cross-border activities in the banking sector as to how banks allocate their cross-border activities. Those transfer pricing discussions take place in the open, above ground and in a transparent manner.

There are various and sundry issues in the interaction between the tax office and the taxpayer, but the identities of the taxpayers are known. The tax office and we in the profession have economists. We have an ex-Treasury economist with us. That is a separate issue to the issue of evasion and a separate issue to the screen free limit, as my colleague Mr Walsh has outlined. The screen free limit for small value items is somewhat different to the issue of how to allocate transnational, large scale transactions between related parties. It is important that the committee is aware that the allocation issue is not unique to electronic commerce.

The other issue that follows on from that, and we touched on it, is investment of funds. Our approach as a firm is that we recognise that it is in the interests of this country to ensure that the cash economy, black economy and so on are not allowed to run out of control. Having said that, though, the investment of funds internationally is a normal activity that is undertaken with or without electronic commerce.

Finally, some important points were made about the importation of goods. I think it needs to be understood, and our firm shares the view of the government, that Australia's tax system requires reform. In an increasingly service based world economy, our tax system of wholesale sales tax clearly has defective areas. We need to be aware, though, that international trade causes competition in many areas of tax. For example, Australia is currently importing significant programming services. It is possible now for companies that are fixing the year 2000 problem to have the programming done in India. The services are performed cheaper in India than they might be in Australia, for reasons unrelated to sales tax and GST for the time being, because there is no payroll tax and there is a different labour cost structure.

There are multiple layers here but I did want to make the point that the transfer pricing and related party transactions area does need to be separated from the issues of the black economy. The transfer pricing/allocation of profits issue has been receiving attention on the part of the tax office for some five years or so, under Mr Killaly's leadership in particular. My observation is that one would not want to have that issue distort the deliberations of this committee.

Mr KILLALY—I agree with the comments. I think that the black economy question is fundamentally different. It always strikes me that, if you sit in an aeroplane anywhere and pick up an airline magazine and flick to the advertisements, you see a number of professionals offering the service of setting up tax haven entities. It is very interesting to wonder what they might be doing with those entities. That is certainly an issue that we are following up, as well as transfer pricing.

CHAIR—Have you replied to any of those ads?

Mr KILLALY—Obviously, they are a keen source of interest to us.

CHAIR—Thank you.

Mr McNAB—To the extent that the submissions and the tax office report deal with a need to alter the current international tax structures to achieve a better outcome, or to the extent that they suggest that we should at least investigate whether it is necessary to alter those structures—if I can just step back from that argument for a moment—it seems unlikely to me that, with respect, the committee would be able to form a view in the time frame that it has, on which of those outcomes is going to be the appropriate one for us to adopt—for several reasons.

CHAIR—With respect, I think we will probably decide that.

Mr McNAB—Of the issues that are going to have to be examined—issues to do with more than simply tax office input into the process and issues to do with multilateral agreement to achieve some sort of workable international solution—they are the sorts of

factors which seem to me to present difficulties in doing anything quickly.

It would be very important if one of the outcomes of this process was to discuss a structure which can go forward and manage the process of resolving these issues. It is not clear to me whether that structure or that management process is going to involve simply the process being dealt with within the Australian Taxation Office alone, for instance, or whether it may be that the process is dealt with across governmental bodies by some coordinating entity. I am uncertain as to whether the committee has begun to examine that issue and whether it has a view on it. Is it possible to ask that question?

CHAIR—You can ask, but the committee is still considering the terms of reference of this inquiry and the committee has not reached any view about any issue relating to the inquiry—full stop. We will consider all that in due course and we thank you for your input. I appreciate the suggestion that we might, indeed, consider whether or not there are mechanisms to follow up on this issue of taxation and the Internet and whether we might make recommendations in that regard.

Mr WATERS—I would like to take another aspect of the neutrality issue and perhaps challenge the assumption that seems to underlie the tax office's position that all they are seeking to do is to maintain the existing tax base and prevent further erosion. Again, this comes back to the distinction, that has already been made, between major transactions on the one hand and the vast majority of routine retail transactions on the other. It is in that latter area that our concern mainly lies: the potential for increased surveillance and monitoring of transactions which are currently anonymous.

I think at one stage during Mr Killaly's presentation he posed the question—if I can paraphrase it: what kind of business does not keep records of its customers and their transactions? I would suggest the answer to that is the vast majority of businesses currently do not. The vast majority of retail transactions are totally anonymous. By moving to an Internet trading environment, obviously, there is necessarily a capture of personal information associated with many of those transactions, which makes them more transparent and creates a record for the first time. In our view, the extent of that record keeping should really be driven by the relationship between the customer and the supplier, including some sort of privacy bargain about choices about whether the individual wants to have that recorded, and whether it is necessary to be recorded, rather than by the ambitions of any third parties, whether they be marketing firms or tax authorities.

In terms of looking at whether we are defending or changing the status quo, we need to recognise the fact that an increasing number of transactions, as they move on to the Internet, are going to be identifiable. Whether it should then follow that those records should be available to tax authorities is questionable.

CHAIR—The Taxation Office has a comment?

Mr KILLALY—Yes, just a couple of things very quickly. Transactions on the Internet are, of course, credit card transactions. There are records of what the transaction was about and the parties involved in that transaction. The other thing is that there is an obligation on the tax office to make sure that its administration is fair among all the different groups of taxpayers. I do not think there is any disagreement with that principle, so there are areas where issues of compliance testing and compliance improvement arise. As long as there has been tax legislation there have been indirect means of income measurement.

Asset betterment statements and source and application of funds statements are the two methodologies that we use in that regard. That is particularly so in respect of small business and the cash economy. In that process it is unavoidable that you look at where the money is coming from and what it is being spent on. Unavoidably, there is a degree of intrusion in that process, but the tax administration has to determine the question of whether income has been derived and has been left untaxed inappropriately.

We are not suggesting anything further than a migration of the existing policy balance between reasonable access to records, from the point of view of determining risk and ensuring compliance, to what is in the existing system. That balance is embodied in the policy in existing law. We are saying: take those principles and make sure that those principles can apply in the context of electronic commerce. We are not saying any more than that.

Mr WATERS—Mr Chairman, can I come back on that point?

CHAIR—Sure.

Mr WATERS—I think there are two significant differences. The first is that we are talking about an environment where there are many more records of individual transactions now becoming available, so that has changed the balance anyway. Secondly, there is a suggestion in your paper—in the proposals you are putting forward—that we are moving more towards routine monitoring and surveillance rather than, as currently, only investigating and asking for those records on an exceptional sort of case by case audit basis. Therefore, you are intruding or proposing to intrude on the routine transactions of a much larger number of customers on a routine basis than currently.

Mr KILLALY—Mr Chairman, I have two points. Credit card transactions are accessible to the tax office now. In that sense, we are not seeking any greater access than we can get now. I take the point, though, that because you have a system in place that is dealing with a greater volume, then you can actually access that system instead of doing one on one cases. But I would raise the question as to whether that is not more a trend in terms of protecting privacy, because in terms of balancing the efficiency of our resource usage at the risk assessment level, we would be looking for patterns and trends generally rather than individual cases. I would suggest to you that, in the first instance, focusing on

patterns and trends is probably more likely to protect privacy at the individual level than the one on one investigations that might occur.

Senator CROWLEY—Thank you, Mr Chairman. This committee is going to have to make some recommendations after all of these deliberations. If we look at the international arena and Australia's place vis-a-vis other countries, we could make recommendations from this committee that would clearly, if adopted, massively disadvantage Australia—to put a cost on somewhere or other which would mean whacko and everybody would be off to New Zealand or Bangladesh. We do not want to necessarily recommend so as to automatically disadvantage Australia.

On the other hand, I wondered if you could tell us what the balance is to this. How do we advance this debate? To what extent can the tax office, in international discussions, go it alone or make recommendations that are advancing your cause perhaps but will be putting you out of step with other countries? Is there a move towards a kind of world system where everybody is agreed about everything and so competition will be somewhere else besides in tax policy? I am not sure I am putting it coherently, but to what extent can Australia go, not madly independently but by itself, and to what extent do we have to play with the crowd? To what extent is the negotiation at the international level a matter of hard bargaining, as apart from rational, reasonable discussion and deliberation? Is there a need for Australia to look for allies with a similar perspective in terms of wanting to attend at those international negotiations?

Mr KILALLY—The senator has raised some very, very good questions here. If I was approaching this issue, I would really need to understand the relationship between taxation and the behaviour in the market, and the extent to which the particular market is sensitive and reactive to movements in taxation. You can probably break up business into two broad sets in that regard. There is an insight into this in the controlled foreign companies legislation—the distinction that is drawn between active business and passive investment.

I would make another comment about financial markets. Active business, in our experience, tends to be largely driven by access to the markets, skills, political stability, infrastructure and a whole raft of non-tax reasons. But in the marginal cases it is responsive to the tax treatment. Generally speaking, the business decisions come first—and they are on a feasibility study and internal hurdle rates for the particular people involved—and then they think about taxation as an adjunct to that, or they might think about how best to do the investment from a tax point of view, having already decided to invest.

The other type of investment is highly mobile and reactive to taxation treatment. The taxation almost becomes a first order issue. The kind of characteristics you are looking for are the extent to which the particular activity is mobile—and services these days are becoming more and more mobile—and the way that the market actually funds

itself and whether that is very mobile.

Financial markets, for example, will move very quickly if you get one percentage point difference in any kind of treatment or even in regulation. Even if the net tax effect remains unchanged, the fact that you change your tax procedures can sometimes send a ripple through the market. The answer to your question will come from trying to model the main sectors that are involved in electronic commerce, which we will be trying to do, too, and seeing the extent to which we can actually intervene without affecting the doing of business. That was one of the things that I was referring to before when I talked about the need for alignment between the taxation system and the market.

There is also a distinction that needs to be drawn between real economies—the country that is actually producing the economic value added—and countries like tax havens that can present themselves as conduits. I would really like to think that we will get to a stage at some time when all countries in the world agree to a fair sharing of taxing rights and revenues. But the concern I have is that some countries will perceive that their comparative advantage is from standing out of the ruck and actually competing on taxation. Our concern, therefore, is to focus on what is actually happening in those kinds of transactions. The answer is actually in following who is adding the economic value, where the real business decision making is occurring, trying to allocate the profits in those jurisdictions, appropriately rewarding both parties to the real transaction.

I was going to say too, Mr Chairman, that the senator raised another question about the process by which international bodies come to a consensus about taxation issues in the broad scope. Australia has always taken the position that we really want to avoid the horse trading type of hard bargaining approach to the settlement of international tax matters. We want to come to a rational set of principles which themselves become a kind of a formula or an algorithm that can be applied to the facts and circumstances of individual cases, and the answers just fall out from that approach of a set of principles. That is the view that we have taken on treaties and transfer pricing. It is certainly the view that is most likely to produce a fair sharing of taxing rights.

CHAIR—Are you telling us that, rather than being economic rationalists, the Australian Taxation Office is a taxation rationalist?

Mr KILLALY—I am saying that rationalist thinking is very much part of the approach that we take.

CHAIR—It was a joke. Could I ask the ATO, on behalf of the group, about some of your recommendations which have caused particular groups and individuals some worries, some of which have been expressed to us? In recommendation No. 6, you said you recommended an initial report documenting progress be furnished no later than 1 December 1997. Is that report to hand?

Mr MERRICK—No, but further work is being done to satisfy that recommendation. We have engaged some consultants to look at this again. To an extent, these issues were also covered by the ABS submission to this group. We were concerned about there being adequate ways of measuring the electronic commerce that was actually taking place.

CHAIR—When could the committee expect that you would have a report, an interim report, or anything that would help guide us?

Mr MERRICK—Can I take that on notice because the people who are actually doing that work are not here today? We can get back to you on that point.

CHAIR—I would appreciate that because that would be helpful to us. The next one that I had was recommendation 10:

The ATO should liaise with the Australian Securities Commission to ensure that site identifiers such as company and businesses names and ACN or uniform company numbers are mandatory on commercial web sites.

Have you had a lot of flak about that recommendation?

Mr MERRICK—This recommendation has attracted general support. No-one seems to have any major difficulties with it.

CHAIR—Thank you. Recommendation No. 11:

Web sites should be registered.

Mr MERRICK—Recommendations 11 to 14 fall into a group of recommendations that have attracted some critical comment. To address that we have commissioned the CSIRO, who were responsible originally for these recommendations, to re-examine them, to see whether in fact they are justified or whether some alternatives are viable and so on. That will be done over the next couple of months.

CHAIR—Does anyone here have strong objection to that series of recommendations?

Mr MARZBANI—As a general comment, most of these measures, which form a group of about five or six recommendations within the report, are totally unlikely to have any impact on tax compliance whatsoever by anyone out there, whether in Australia or overseas. It seems to me that, whilst they do place some additional burden and some costs on activity within the Internet market, they are very unlikely to have any effect whatsoever in increasing tax revenues within Australia.

CHAIR—What particular burden is it to simply put your company number on the

web site? As I search the Internet and I find a particular web site, and I am interested in that operation and the service of that company, when I cannot even find out where they are located I give them the big flick and I disappear somewhere else. I have lost interest. I will speak later this afternoon about what people tell me about why they will not buy on the Internet. However, it seems to me that the greater confidence that we can give people that this is a fair dinkum method of doing business, the more business will be done. That gets into issue number 4, which is growth opportunities for Australian SMEs.

Mr MARZBANI—Mr Chairman, that is a very fair question. Take the example of Village Roadshow. It has a web site that has thousands of pages. Village Roadshow as an entity controls radio stations in different capital cities and it controls entertainment theme parks and so on. It would have a great deal of difficulty figuring out which company number to actually put down on one of these sites, given the fact that they may have a cross-promotion involving a number of their entities. Therefore, do they put multiple numbers up there? That in itself is not that huge a deal but if every company wants to do that it becomes a small issue.

We talked about not doing anything unilaterally. There is obviously no value and no extra benefit that will be gained from people who have got non-Australian domain names, or Australian domain names hosted overseas, from complying with this. Again, from a technology point of view, there are about four or five CSIRO recommendations that are totally useless. The only people that they would catch out would be the dumbest criminals of all that have just ventured onto the Internet.

The fact is we have organised crime and we have the largest money laundering organisations already in control of very strong encryption technologies which we cannot break. We are sitting out there saying, 'We should let the middle or low grade criminals also get encryption because we can bust those guys but we cannot bust the big guys'.

There are a number of broader issues that should be addressed but it seems to me that what the CSIRO report has done is address a number of issues which are really easy for the government to mandate but not necessarily effective in any way. It can be seen as people doing things. The effectiveness of those things is highly questionable.

Mr MERRICK—Can I respond to that?

CHAIR—Absolutely.

Mr MERRICK—As part of the review that CSIRO is to undertake, we will talk to people because we have got some strong reactions. The Internet being a very open place for dialogue, some of the discussion has been along the lines of Mr Marzbani's comments. We are also happy to talk to him to see if these recommendations are justified. Some of these recommendations are significant, for example recommendation 14. We have discussed that also with DOCA and we believe that there is some value in that. But, by

and large, we are going to review it honestly and in detail to see if these recommendations are justified. We would be happy to talk to Mr Marzbani and others.

CHAIR—Thank you for that.

Mr KILLALY—It is important from a compliance point of view to link all the business components back to the operators of the business. Having some kind of identifier on the web site, linking it back to saying this is part of such and such a business or such and such a company's operations, is important from a compliance point of view. It facilitates it. I would also say that with the passage of time the non-existence of such a number would also be relevant in terms of our investigations.

Mr WARD—The Internet industry code, released yesterday afternoon—draft No. 3 for comment by members of the industry and interested spectators—takes up a number of the points raised in those tax office recommendations. Specifically, we are asking all code subscribers to the industry code to identify by means of a notice on their home page or by other reasonable means the name of their trading entity and, if it is a corporation, their ACN, the physical location of their office and a contact telephone number. We do not think that is a particularly onerous responsibility. Village Roadshow will need to consider their membership of the association if they find it so.

However, that is the easy recommendation amongst this group of recommendations. I think the notion that web sites should be registered flies in the face of the notion of free trade which is undertaken over the Internet. But more specifically, it applies a more onerous burden to the Internet than we apply to the operation of other commercial practices.

A point that I wanted to raise before, which was raised by the privacy council, was that most of the transactions referred to in the customer to business transaction over the Internet are by credit card transaction. So the means for measuring those and monitoring the pattern of those transactions, which seems the point of this exercise from the tax office point of view, exists. A more onerous burden being applied to people who operate web sites to have to register and license those web sites to some third party, and presumably, therefore, maintain records of those transactions and provide them to that third party, seems unnecessary when that already exists within the financial procedures by which they conduct their business.

A final point I would make is that the allocation of IP addresses for computers being maintained seems to me to be a point of little or no significance for the management of business or the maintenance of any record of the transactions of business through the Internet in this country. Given, as Mr Merrick would be well acquainted, that IP numbers are dynamically allocated to all but those with permanent connections, that seems a mechanism for creating a log of irrelevance, rather than a log of any substantial use to the ATO or anyone else.

CHAIR—Does the ATO have some response to all that?

Mr MERRICK—We do, yes. Essentially, it comes down to an important and rather basic point about tax administration which is to do with jurisdiction. It has been suggested—and I want to make it clear that this is not a generally accepted point at this stage—that the geographical basis of jurisdiction, and a national base of jurisdiction, is not easy to apply on the Internet. Other ways of getting a handle on, say, getting information from web sites may need to be necessary. I think that the points made by the IIA are valid and useful. We read the transcript of their evidence before this group and we would like to talk to them as part of the review exercise of these particular sets of recommendations.

CHAIR—I thank you for that. Recommendation 18 says that the ATO should negotiate with providers of software used for electronic transactions to incorporate messages, digests, electronic date stamp or other available technology to ensure the integrity of transactional records. Have you had any progress on that recommendation?

Mr MERRICK—Yes, we have. We have located a particular supplier and we also think that, as a matter of basic information integrity, it is extremely likely that this will become more and more common on the Internet. It is simply a critical requirement for business record keeping that you are able to be satisfied about the integrity of records. We have made progress in the sense of locating people who can do this, but in terms of the actual application in real life, it is going to be a long haul.

CHAIR—How does that deal with encryption?

Mr MERRICK—It does deal with encryption but, as I said, getting to a point where in business records you can be satisfied about the integrity of those records is going to be a long and difficult haul.

CHAIR—Fair enough. Recommendation 19 says that the ATO should negotiate with major international credit card and electronic payment system providers to seek international agreement to allow revenue authorities to obtain access to credit card transaction details held by credit card companies outside the jurisdiction of the domestic revenue authority. Can you tell us how you are progressing with that, or how much flak you have got?

Mr MERRICK—We have to hold discussions with the Privacy Commissioner. We intend to do that this month if at all possible, because the Privacy Commission had some concerns about this recommendation, along with recommendation 24. As Jim was saying, it seems that access to credit card information is already available domestically and it does not seem to extend any new principle in terms of access by tax authorities to financial transactions, apart from the jurisdictional issue.

Ms SCOLLAY—I would like to add that, while it is a power that is available

domestically, I wonder how often it gets used at the moment. If, by moving from the environment in which we are currently into an electronic environment, there is going to be a great deal more use of that power for surveillance of individual transactions, I think that needs to be something that is debated domestically as well. It is not just an issue of extending that power internationally that worries me. There is no concern in terms of investigation by warrant or investigation on individual cases. The issue of actually trawling individual credit card transactions on a mass scale internationally and domestically is really something that needs to be addressed as a major concern.

Mr MERRICK—I agree. I think that is a different issue and something that we will explore with the Privacy Commission.

CHAIR—Thank you. The last one I had was No. 24.

Mr MERRICK—Yes. We have had some discussions with the Reserve Bank about that. I would suggest that the committee needs to talk to the Reserve Bank to satisfy themselves that we have a proper understanding of the Reserve Bank's views. The central issue is the purse limit. The range indicated there is \$100 to \$500. We have obtained some very definite views from the Reserve Bank on that limit. I think that is likely to be reflected in an amended recommendation.

CHAIR—This committee understands, from our discussion with particularly the NAB and the Australian Bankers Association and general press releases, that during the first half of this year we are likely to see real introduction of electronic cash.

Mr MERRICK—The general consensus is that the \$100 limit was simply too low. I think that is a fair comment. There will need to be further discussions with particularly the Reserve Bank about the regulatory mechanisms. We stand by the earlier comment that we made in the note to you that electronic cash can be a potent instrument for tax evasion.

CHAIR—Is there anyone who has taxation issues they have not yet raised?

Ms SCOLLAY—Yes. I just want to raise again the issue of recommendation No. 24 before we move off it. The issue of anonymity in transactions is another very important privacy principle. Where anonymity exists already—and it is possible to have low value cash transactions—where for transport reasons or purchases of goods you can use cash at the moment, we want to ensure that we are not finding a digital trail created where there is no digital trail and that people can buy and move and live their lives without that trail.

CHAIR—If those are legitimate transactions, don't they have to get the cash from somewhere and doesn't that leave a trail? Without electronic commerce, doesn't it leave a paper trail that is absolutely identifiable? You have to get the cash, don't you? And you have to have a pretty good reason for getting it.

Ms SCOLLAY—I could give some examples. If you were to have a smart card that was loaded up with cash, you could then go across the Sydney Harbour Bridge, park your car, buy newspapers and buy small products, et cetera. That would not be traceable unless every transaction on that smart card was traced. The issue for me is to be able to have amounts of cash on a smart card that can be used in the same way that cash can be used now, where you do not leave a digital trail of all of your movements, retain the existing anonymity with which we all live our lives now and not move to a system where all transactions on a smart card, for instance, might be able to be traced.

CHAIR—I accept that, but if you move large amounts of cash very quickly from jurisdiction to jurisdiction and come back to some of these tax havens, I think we would absolutely want the Taxation Office to have a mechanism to be able to investigate those transactions. It would have been nice to figure out what Skase was doing with his money, wouldn't it?

Ms SCOLLAY—Things like AUSTRAC already track the large cash transactions. Clearly, then, there would need to be some limit on the amount of cash that you could load on to a smart card.

Mr KILLALY—Mr Chairman, I think the gravamen of this point really is about the threshold.

Mr WALSH—Mr Chairman, I would like to ask one last question and make a very quick comment.

CHAIR—Yes, Mr Walsh.

Mr WALSH—The question relates to recommendation 29, that the ATO and Treasury should jointly re-examine the issue of exemption from sales tax of tax advantaged computer programs. This is not an electronic commerce issue; it is opportunism, I would suggest. There is no nexus between the exemption for computer software and issues to do with electronic commerce.

I would make a quick comment, too. One fear that I have is about a number of the recommendations that are made; perhaps the direction of the committee may be influenced by some of the comments that are published in the ATO reports. Although I acknowledge it to be fair that Mr Merrick states up-front that the findings and conclusions in the enclosed reports are not necessarily shared by the ATO, they are published material and quite a number of them are blatantly wrong.

I will just give one very quick example, quoting from *Tax and the Internet*, volume 2, page 9, 5.3 Taxation implications. This relates to advertising:

If significant advertising outlays are withdrawn from the print media in favour of the Internet, ATO

sales tax collections from newspaper and magazine production must fall.

Newspapers and magazines are exempt from sales tax. That sort of thing should have been checked and should have been gone through, and it is simply the influence factor.

CHAIR—Even I know that. Mr Robins.

Mr ROBINS—Just going back to recommendation 24, on stored valued cards, I think it is important to recognise that, whilst it is a new technology, it is duplicating cash that we have in the economy. To view stored value cards as an account or something such is quite flawed. The actual, physical stored value card is like a wallet, and then you have the digital coins on it as such. I think you need to recognise that recommendation 24 proposes a situation where you are not applying neutrality to an electronic process as compared to a paper process.

Mr MERRICK—I will make a brief response to that. I suppose there are two kinds of electronic cash. One is engraved on a card, on a stored value card basis; the other one is what is being taken to be called network cash. If you can transfer money anonymously around the world via the Internet, I think that does present a different issue from a physical card.

CHAIR—We will close for lunch. I thank you. We appear to have gotten through the whole morning session without a substantial war. I suspect there is less disagreement around this table than there is over at Old Parliament House this morning!

Proceedings suspended from 12.03 p.m. to 1.09 p.m.

CHAIR—Before we discuss issue No. 3, I want to make one general comment following on from this morning. It occurred to me during the luncheon break that Mr Killaly did say that, to the best of his knowledge, this inquiry is the most comprehensive inquiry being undertaken by any parliament in the OECD. Recognising that, it puts a significant amount of pressure on this committee. On behalf of the committee, I am certain that we want to respond appropriately. We will deliberate very carefully and I will recommend to the committee that I write to corresponding bodies in all the parliaments of the OECD and send them a copy of our report, which should help put Australia up there at the top of the players in Internet commerce. So let's make sure we get it right.

Issue No. 3 is customs administration and the screen free limit. Issues surrounding the operation of the screen free system for the importation of low value goods provoked significant comment from a range of retailing organisations. These groups argue that the Internet gives Australian consumers more power and choice in choosing between goods supplied by Australian retailers and goods from overseas suppliers. Imported goods that conform to certain Customs requirements may not be subject to duty and sales tax. This can create a favourable price advantage for Australian consumers, as they can purchase

goods from overseas at a lower cost than they could from an Australian retailer. Some groups, in evidence to the inquiry, argued that if this situation goes unchecked, parts of Australia's retailing industry could be threatened.

Information about the quantity and value of goods entering Australia under the screen free limit is limited. Australian Customs reported to the committee that because material is screened free there has not been the need, in the past, to collect data on this material. Without this data, it is also difficult to estimate the duty and sales tax revenue that is not collected. Customs is responding to the need to address this information deficit by commissioning AC Nielsen to conduct a survey of low value imported goods. Representatives from Customs will introduce this discussion issue and report the preliminary findings of the AC Nielsen survey. Would Customs like to make their opening statement, please?

Mr DRURY—When we addressed this committee last year, it was understandable that the committee quickly became fascinated with the complexity of what it is that Customs runs as it clears lesser goods through its networks. We quickly saw that, if you are a small importer clearing certain categories of goods through mail exchanges, the goods have to round up to about \$1,000 in value before we ask for the formality of a Customs entry to clear them.

By contrast, we gave evidence that at airports where couriers normally bring the goods through in those small quantities, if you have goods to the value of \$250 and above you are into the formality of the Customs network. There are costs associated with the formality of a customs entry—\$22-plus if it is an electronic; \$44-plus if it is a manual system. To further add to the complexity, we exposed the fact that, where there is an informal clearance and the amount of duty and sales tax is less than \$50, then we do not collect it. That is the normal process.

So, as you have said, Chairman, we went away to plunge into some sampling of all this to see what it was that we might expose. That is why we engaged AC Nielsen. They, on our behalf, undertook a stratified random sample to see exactly how consignments which basically have a description on the outside of them stood up once they were subject to more scrutiny. We sampled in Sydney only. We did this in November for two weeks and the material that we have available today is simply an extrapolation of that information to present what we believe is useful information in a national sense and for an annual basis. We looked at a bit over 4,000 consignments, and of those we opened 2,300—just short of 60 per cent. We applied some additional information that we had about some of the obvious information that was disclosed when we opened those packages. We can come back to that later on. We have done the initial scrutiny of that information but it is still not analysed to the extent that we have engaged Nielsen and we will not have our final report until the middle of next month. We do have some preliminary figures and we will go through those during this discussion.

One thing I should say is that it was not possible from the survey which we conducted to determine to what extent the Internet was involved in the accessing of these consignments. It would have been super, I suppose, to have been able to ring up the people whose parcels we had in front of us and say, 'Hey, did you get this over the Internet, did you mail order it, did you ring up, did your aunty or grandmother send it to you, or whatever?' But we were restrained under postal regulations particularly from doing that sort of thing, so we have no material evidence as to what proportion of the packages that we were looking at were ordered or arranged through whatever medium, whether it was Internet or any other medium.

We are able to say what proportion of these parcels that we looked at broke into categories such as compact discs, books, fishing tackle, sporting goods, jewellery, clothing and the like. Again, we can go through that information. It became very obvious to us as we looked at this information that, sure, we can move those factors up or down that I mentioned in the introduction—the entry level or the screen-free level or the amount of revenue that we either forgive or collect. The consequence of doing all of that is that there will either be more or fewer consignments that the Australian Customs Service would have to deal with, and not just the Customs Service but, in the case of international mail centres, Australia Post would also suffer some inhibitions if we started to pull up more of those parcels.

We were going to put up some overheads here today, but instead we have decided to put in front of everybody sitting at this table some figures that would show, based on our surveys, what would happen if we moved some of these parameters around. I am afraid that the information is not as clear as it might have been when we sat down to prepare it but I have experts here today who can take the committee through this material and explain it fairly quickly.

One thing I should mention, because you raised it prior to the committee going into session, Mr Chairman, is that you wanted to know very simply what the costs would be of doing some of these things if we moved some of the parameters and what the consequences would be. We need to explain to you that if we have used expressions like 'cost recovery' that really relates to the statutory fees that we are required to impose to recover the processing arrangements for dealing with packages, whether they come through a formal entry system or through an electronic entry system. As I said, I have some experts with me and I am quite happy to answer questions from the committee.

CHAIR—Perhaps it would be a good idea if someone could run us through exactly what this single piece of paper says. If I could also comment, Mr Drury, that the term 'cost recovery' does not talk much about cost-benefit analysis, but whenever we address this, the Taxation Office, certainly Treasury—all of us—are concerned in the end with what is a trade-off. If we change the limits, what are the results likely to be? The industry may clearly say, and some have said to us, that their business will suffer if changes are not made. I guess in some instances that becomes a judgment, but I would put to you that

in order to properly evaluate it we need a proper cost-benefit analysis. Could you run us through what this paper says and then perhaps tell us what the costs would be to achieve some of these outcomes?

Mr DRURY—We might also be able to go back to what I said—we have some figures now on what proportion of these parcels have included such items as compact disks, sporting goods, fishing tackle and so on.

CHAIR—The committee would be delighted to hear those numbers as well.

Mr DRURY—I might hand over to Mr Austin.

Mr AUSTIN—It might be useful if we just go through the process before we get on to this table. As John explained, it was meant to be an overhead but, given that this morning the overheads did not work particularly well so that everyone could see them, we have handed these out so that you have them in front of you. What leads up to that is how the survey itself was structured, and it would probably be useful at this stage to go through the process so that you understand.

As John mentioned, it was a stratified random sample taken to identify how consignments were described externally, what they actually contained and to determine the effect of change in the entry and revenue collection thresholds. The sample covered a period of only two weeks in Sydney in November and the extrapolation of those figures to Australia-wide for the 1997 year did not take into account seasonal or location factors.

There was a total of just over 4,000 consignments selected and a bit over half of those were opened to check their description against contents. We used other data to come up with the preliminary analysis that we are offering today. Some of the other data we have used are some of the costing factors that did not come out of the survey but that we have had to get from Customs sources to try and give you some of the cost-benefit analysis figures that you referred to, Mr Chairman. What you do not have in front of you, but which is part of what I have here which I will read, is part of that cost-benefit analysis that you referred to.

I will just give you some idea of what it costs us to collect the duty that is otherwise forgone by having a \$50 duty and sales tax limit. If we look at Australia Post, for instance, there are about 1.5 million consignments on which we would otherwise collect duty if it were not for the duty and sales tax thresholds.

CHAIR—Where does it say that?

Mr AUSTIN—It is not on that table. It is on a summary I have here. That table comes later in the process. I will certainly give you a copy of this document. We will tidy it up and send it to you tomorrow, if that is okay.

For those 1.5 million consignments through the postal system, there is a revenue foregone of just over \$25 million. The cheapest method of collecting that revenue would cost us something in the order of over \$30 million. To pull out that 1.5 million consignments on which we would collect revenue we would have to screen over eight million consignments. That gives you some idea of the bulk of the consignments going through Australia Post that Customs and Australia Post have to deal with in administering that sort of requirement.

Through the air, there are just under a million consignments for a revenue foregone of \$9.3 million. To collect that at minimum rates it would be about \$18 million. From our perspective quite clearly there is no cost benefit in lowering the duty collection threshold to that extent. That is only cost to Customs for commercial screening purposes. It does not include cost to Australia Post and it does not include cost to Customs for screening for border purposes, which is screening for prohibited imports.

For the purposes of this meeting today we have pulled out five goods categories that may be of some interest to people around this table. I will just read you some of the figures that we have come up with on these. For music CDs, the best estimate we have for an annual figure is somewhere between 180,000 to 270,000 consignments. This is roughly about two to three per cent of all postal items less than \$1,000 under the threshold. It also includes screen-free air cargo consignments. Most CD importations are through the post—about 98 per cent from a sample.

There is a note here that, apart from the assumption that November is like other months in terms of CD importation, 60 per cent of this amount may not be available because CDs are not described on the outside of the consignment and a further 20 per cent are probably collected through ICDs. That means that when we looked at those consignments, compared to when we actually opened the package, there were more CDs within the package than were declared on the front of the consignment. This does not mean that people are trying to avoid being detected, but the CDs that we found were sometimes mixed with a lot of other articles. It was the other articles, which for some reason the sender may have thought were more important, that were declared on the front of the package. Quite often a number of CDs would come through, but we would just never know by just reading the description. It is through the screening process.

The revenue foregone on CDs may be realistically seen as around about \$1 million. The total revenue collected for this category was an estimated \$1.5 million from 9,890 formal entries. That is what we collected and there may be another \$1 million foregone.

The fishing tackle that we found in the survey was extremely low as a proportion of the total screen-free traffic. The best estimate for an annual figure is somewhere between 1,000 to 3,000 consignments or somewhere around 0.02 per cent of all consignments. Fishing tackle was only found in postal consignments and the revenue foregone was seen to be in the region of about \$6,000 to \$7,000. Again, there was an

assumption that November is the same as other months, which we know for fishing tackle is not right. During the winter months there apparently is very little importation of fishing tackle.

The total revenue collected for fishing tackle in 1997 was estimated at just over \$2 million, from just over 3,000 formal entries. We thought that was fairly low and, given the profile of fishing tackle within this inquiry, we did some supplementary inquiries and looked at the two weeks post the survey two weeks. We found that there a number of consignments came in in the following two weeks. But, in the scheme of things, normally they would not have all been picked up in a survey. We deliberately targeted those consignments and still found them to be very minor in the scheme of things, still less than one per cent, in fact.

The next category is sporting goods. We thought fishing tackle might be included in sporting goods, so we included them in the categories that we talk about today. The best estimate we have of annual figures for sporting goods was 10,000 to 25,000 consignments, which is only 0.2 per cent of all consignments. They also were only found in the postal consignments, not in the air cargo consignments. The revenue forgone is thought to be about \$300,000 to \$700,000. We did no other relative comparisons of this because of the diverse nature of sporting goods.

The next category we looked at was jewellery. The best estimate for an annual figure for jewellery was 30,000 to 70,000 consignments, or around 0.6 per cent of all consignments—again, only found in postal consignments. The revenue forgone is estimated to be \$1.3 million to \$2.9 million. However, with jewellery there are indications that there are deliberate misdescriptions and that the misdescription rate is high, and that substantial duty avoidance may be involved. We are currently carrying out further research to follow up on this and are trying to ascertain what the avoidance level may be. The total revenue collected for this category in 1997 was an estimated \$15.7 million, from 23,500 formal entries.

By way of comparison we have also included the textiles, clothing and footwear sector. We have not completed the figures on this; we have not annualised it nor put an Australia-wide number to it. So this is just for the time of the survey, for November in 1997. There were 77,000 consignments by post, 14 per cent of those coming from New Zealand, and 88 per cent of TCF coming by air consignment was from New Zealand. The New Zealand consignments are not liable for duty or sales tax, so the revenue effect of looking through those particular consignments is that it would be quite costly against what we would actually regain of any revenue forgone.

We come to the table, which looks at the implications of reducing the duty and sales tax-free limit and thresholds. I will run through it, but if there are any questions as we go along I might have to refer to my colleagues for a fuller explanation.

I will explain what we are trying to point out. You should take the first line on page 1, under the heading '(a) moving the duty and sales tax free limits', which continues, 'How many more consignments would pay duty and sales tax?' I will just go through it and you can follow it as we go. If the duty and sales tax free limits were \$50 and the entry limit was \$250, then just over 17,000 more consignments at post would pay the duty and sales tax. That is how the whole thing is structured throughout the table. Where you find brackets, it is done just according to accounting methodology that it is a negative figure rather than a positive figure. Mr Chairman, do you want me to go through every line on this?

CHAIR—No. Just so it is easy to understand: let us take the second line in that group, with duty and sales tax free limits of \$50 and \$1,000. My understanding is that post does not change, if that is what it is now, so if we lifted the screen free limit for air cargo import that would relieve you of looking at 96,568 consignments.

Mr AUSTIN—That is correct.

CHAIR—And the limits on the next line of the table would cost revenue \$2,441,000. Is that right?

Mr AUSTIN—Yes, that is right.

CHAIR—But that does not take into account the improvement in your costs from not having to look at those 96,000 consignments.

Mr AUSTIN—That is right.

CHAIR—Have you any idea of what that saving would be?

Mr AUSTIN—Offhand, I do not know, no.

CHAIR—A comparable amount?

Mr AUSTIN—I imagine it would be comparable. We do not know. We would have to get back to you. We could take that on notice and get back to you.

CHAIR—Let us say that your costs could improve by \$2,441,000. Then we could conclude reasonably that, if we recommended that the limit on air cargo be lifted to a \$1,000 consignment value—this is hypothetical—and if the cost equalled \$2,441,000 as a cost saving, then we could do it with no cost to revenue. Would that be right?

Mr AUSTIN—It might be easier if I explained it this way. With the cost recovery process, we have worked out that if you take about \$20 for an electronic entry, that would be, I guess, the cost saving to the community by not having to enter the goods if you put

the entry threshold up. What it costs us to screen those particular consignments we have not costed out. We are doing an exercise this March to try and ascertain what the true cost of that is. But at this point in time we do not know.

CHAIR—But there would surely be savings. If you have got 96,000 fewer transactions, you surely must not need as many people. Is that reasonable?

Mr AUSTIN—Without knowing what the true cost of that is, I could not comment on that.

Mr GRIFFIN—You have done some estimates before, though, on some of the costings and all that.

Mr AUSTIN—Yes.

Mr GRIFFIN—If you dropped it, would that follow on through for this as well, then?

Mr AUSTIN—Not necessarily.

Mr DRURY—Chairman, could I intervene here? The number of formal entries between \$250 and \$1,000 is that 96,000 figure that we are talking about. If they are all electronic entries at the moment, then the cost is about \$22 per unit. That \$22 covers the electronic medium costs—in other words, aspects of our computer processing—plus salary. But there is another salary cost over and above that, the border screening process. The salary cost that is imputed in these figures is that part of the Customs official who is the commercial Customs official—the official who frets and worries about tariffs and valuations and whether the goods are correctly described and whether the correct amount of duty is calculated. So there is still a Customs officer cost in respect of this, whether it is still going to be formally entered or whether it is now going to be part of the clutter that is being taken out of the system.

CHAIR—Anyhow, would you get back to us on that so that we can evaluate it. I would think that not only we but most people around the table and government would be interested—now that we have got some survey numbers, and we will have them formally shortly—in a whole range of trade-offs on cost versus cost savings. Then perhaps we can evaluate potential impact on Australian retail as a result of any change one way or the other.

Mr AUSTIN—Just to add a bit more to that: how this has been costed out in the past is on the basis of the consignments that have had to pay some form of duty, whether it be through an informal clearance device or through some form of formal entry, and that has been part of the cost recovery process. We do not have a costing on screening those consignments to get to that point. That costing, because of the resource overhead, if you

like, or the cost to salaries, has been loaded onto the consignments that actually paid the cost recovery charge.

What we are about to do at Customs, and a lot of other agencies do it too, is carry out an exercise to try to determine the cost of each activity on an activity costing basis. The next period when we will be trying to ascertain that will be March. That is when they do the next snapshot period. Following that snapshot period we should be able to feed some of those figures back to the committee.

Mrs CROSIO—Mr Austin, when you were doing a survey on clothing via New Zealand, did you have a cross-check that some of our Asian neighbours were not dumping into New Zealand and then sending it off?

Mr AUSTIN—That is something—

Mrs CROSIO—It seems extraordinary. Has New Zealand set up a large manufacturing clothing industry?

Mr AUSTIN—That is the result you get from the survey as coming from New Zealand. We are well aware of the concern that you have expressed. We have conducted exercises in New Zealand and found that to be the case and we have taken appropriate action. We do that as a matter of course, but we do not consider that that was part of that particular exercise for this committee. It is something we are aware of.

Senator CROWLEY—Is the screening you do to look for prohibited imports an extra cost or part of the same cost?

Mr DRURY—It is an additional cost.

Mr AUSTIN—Do you want me to continue to go through this table? Do people understand what the particular table means?

CHAIR—You are saying that if the duty and sales tax free limits were reduced from \$50 to \$20 and we up the—

Mr DRURY—If we put up the entry threshold.

CHAIR—Yes. You are saying that, if we raised the total number of dollars for a consignment to \$1,500 from \$250 and \$1,000, then it would cost revenue \$22 million a year?

Mr AUSTIN—Yes.

CHAIR—However, we do not know how much we would save on Customs costs

by doing that?

Mr AUSTIN—No.

CHAIR—Or postal costs either?

Mr AUSTIN—That would be for Australia Post to answer. I could not answer that. From a Customs' point of view, no, we do not know what that would cost.

CHAIR—Would you like to go on to the last page?

Mr AUSTIN—The second part of the chart looks at what happens if we moved entry thresholds based on the current duty collection thresholds. Following the top line across you see how many more consignments would require entry. I probably should explain further. As of 1 April, the threshold for post was to be reduced to \$250 and aligned with air cargo. There is currently a bill before parliament to have that extended until October. I will make some more comment on that later. We have a view regarding what should happen to that particular threshold. Just be aware that that is happening at the moment and there is some change that may happen with that.

What we are looking at there is that, if the entry threshold for post was reduced to \$250, there would be over 200,000 consignments that would require formal entries. I guess that is how that is set out. If you take the postal example, between the \$50 duty in sales tax collection threshold and the \$1,000 formal entry threshold, we collect that duty through an informal clearance device, an ICD.

The next line across means the ICD number would go down but the formal entry requirement would go up. There is a cost in that to the community because we do not charge cost recovery for ICDs. For formal entries there is a cost recovery charge. The cost recovery charge is what is reflected in the next part of that table. Does that make sense?

Mrs CROSIO—No.

Mr AUSTIN—I will go through that again. Currently at Australia Post, the entry threshold at which we require importers to lodge a formal entry either through a manual entry or through an electronic entry is \$1,000. If, as is required on 1 April unless the bill goes through, it comes down to \$250, that means in excess of 200,000 consignments would require an entry of some sort—electronic or manual formal entry. It also means that, listed between the \$250 and \$1,000, roughly, we would collect that amount in duty on an ICD—an informal clearance device. For an ICD there is no cost recovery charge. That is only for formal entries. So the next lot down is a reflection of what the difference would be if there was a change to the number of formal entries that had to be processed. Are you any clearer about that?

Mr GRIFFIN—Are you saying that it is all very sensitive?

Mr AUSTIN—Yes.

Mr GRIFFIN—The second thing on from that is: are you happy with the way it is? Does Customs believe that these rates need to be altered or do they think they are okay? I think we took evidence on that last time.

Mr DRURY—Perhaps I can answer that. Our disposition, if we could do it painlessly, would be to standardise the air clearances and the postal clearances, and probably bring the standard cut-off point for formal entry somewhere close to \$1,000.

Mr GRIFFIN—Why would you do that?

Mr DRURY—Even in this room today there is enough confusion about why it is \$250 somewhere and \$1,000 somewhere else. We are a bit lost in the mists of time here. I think it was in the early 1980s that we made this distinction. My recollection—and I was a bit of a marginal spectator in all of this 15 or 17 years ago—is we did it as the person that used the postal system to import their goods was a one time or once a year importer, perhaps a hobbyist or a small business person. The person using air freight, who was prepared to pay a lot more for it, was more likely to be the regular business person, perhaps even an importer of spare parts for machinery that needed regular servicing or whatever. That is what existed at the time. We bent over towards those people that used the postal system by saying, ‘These are not genuine business people; these are not people who are sophisticated in the way of getting their goods into the country. We will allow the postal system to look after them. It is only when the goods exceed \$1,000 that we will put them into the complexity of the Customs formal entry network.’

I think those times have changed. People are now using the postal system in some ways, including the express mail service system, as they use the courier system. There is extant a commentary from the Industry Commission of some years ago that said that these two practices should be aligned. There is a weight of commentary and observation that says that maybe those old distinctions no longer exist. It is time to bring them into harmony.

Senator GIBSON—Those numbers you gave us on page A indicate that going from \$1,000 up to \$1,500 does not get you much extra revenue—it is only a few hundred thousand dollars. That would tend to indicate that the level should be going up rather than down.

Mr DRURY—Yes.

Mr AUSTIN—To explain why that difference actually occurs, once you require a formal entry for any particular consignment, it does not matter what amount of duty may

have been payable. For an informal clearance of, say, below a threshold of \$1,000, the \$50 kicks in. If you require a formal entry there is no duty or sales tax limit. There may only be \$5 to be collected, but we have to collect it on a formal entry.

Senator GIBSON—I understand that.

Mr MULDOON—I just want to add a couple of things which do not so much focus on the exact numbers but talk about the principles of this.

CHAIR—If I could interrupt for a second, has Customs finished with the presentation of the numbers?

Mr AUSTIN—We have been asked in the discussion paper to supply other information and we have about three or four more pages to get through, if you want us to go through it?

CHAIR—Can you do that, please?

Mr AUSTIN—I will try and get through it fairly quickly. We were asked to describe some of the implications of moving the duty and the entry limits. Perhaps I could just go through some of the other implications if the duty and sales tax collection limit was to go down—in other words, if it was lowered.

From our point of view there would be a delay in the release of cargo and more resources would be required for the examination of cargo and collection of the revenue. There would be more, probably first-time one-time, importers required to fill in entries et cetera. There would be complaints by the public—and we expect that they would increase significantly. Australia Post would have concerns about delays to the mail and the increased cost for the storage of the articles.

A reduction in the duty and sales tax free limit for air, postal and sea consignments may result in pressure to align the limit in the arriving passenger concessions. This concession is available provided the arriving passenger declares the goods to Customs and they are goods that are regarded as non-commercial in nature. When these conditions are met, the collection of revenue of less than \$50 is waived for incoming passengers. A reduction in the limit of this concession would have severe ramifications for the flow of passengers and on the agreed service delivery standards for passenger processing. This particular point is of importance, bearing in mind the anticipated increase in passenger movements leading up to the Olympic Games.

If the entry thresholds are decreased, as part of the Customs' cost recovery introduced in April 1997 the entry threshold for goods imported via the post was due to move from \$1,000 down to \$250, as I have already mentioned. We needed that extension of time to October to go through some of the ramifications. Some of those ramifications

are coming out of the survey process and also out of this committee process, which has been useful for us.

It is our position that it is inappropriate to implement the lower threshold. The survey indicates that an additional 17,000 postal consignments would become liable for entry. Customs' costs for processing these entries would be just under \$500,000. The revenue raised would only be about \$380,000. Customs would be unable to justify imposing cost recovery of this magnitude when the amount of revenue raised was so small.

There would be an increase in the number of formal entries, as I have mentioned. There would be an increase in Customs' collections of import processing charges. This amount would range from \$5.2 million, if they were all electronic entries, to \$10.2 million, if they were all manual entries. In reality, there would be some mixture of both and it would fall between those two figures.

There would be cargo delays, principally for imports made by non-commercial clients and the disparate group of importers who use the post. There would be increased cost to business as more formal entries were required, incurring broker fees in Customs' import processing charges. The supply of trade statistics to the ABS would be affected, with increased transactional data being supplied—which the ABS might think was a good thing, of course.

There would be an increase in the cost of Customs' computer processing, which would add to the cost to business. This may include a major upgrade of existing Customs' systems. In fact, we think if there was an increase of something less than 10 per cent, then we would indeed be up for major, very costly upgrades to the current computer system to be able to handle it.

There would probably be a revenue increase to brokers as the formal entry population increased; they would probably get more work out of it. The extent to which Customs and the Australian Quarantine and Inspection Service could profile electronically would be increased, so there would be some benefit to us out of that, I guess.

On the implications of increasing the thresholds, if the threshold—we are probably talking about air—was \$1,000, there would be a decrease in formal entries of about 270,000—you have that in the paper in front of you—there would be a decrease in Customs' collections of import processing charges and a reduced cost to business.

There would be a decreased revenue to brokers as the formal entry population decreased. They may want to have something to say about that. If the threshold was moved to \$1,500, there would be a decrease in formal entries of over \$370,000, and a decrease in customs collection of import processing charges in the range between about \$8 million to \$16 million, depending on whether they are electronic or manual entries. There

would be a reduced cost to business and, again, a revenue decrease to brokers as formal entry population decreased.

Some of the other implications would be the extent to which the profiles of Customs and AQIS would be decreased. There would be a freeing up of Customs mainframe processing ability. The supply of statistics to the ABS would be affected by a decrease in import data and there would be increased facilitation of cargo.

The other thing we were asked to comment on in that circulated paper was Customs and Australia Post administration: the processes and effectiveness. We have in past hearings been through the processes that we deal with at Australia Post. I do not know whether it is worthwhile going back over that again for the purposes of this meeting. If you think it worthwhile I will go through it.

CHAIR—No. Thank you.

Mr AUSTIN—I might leave it at that.

Mr MULDOON—I think most of the points I was going to make have been made in the last few minutes. You said you were interested in a cost benefit analysis being carried out. Similarly, our industry would love to see one done. I have some doubts as to whether there would be great benefit in any reduction of the thresholds as proposed from some circles.

It goes back to where we started today. We said that if we look at the true terms of reference with the Internet and the thresholds, we start with the fact that there are not a lot of goods actually bought individually over the Internet. If we then look at that further, we say, 'Of those goods that are bought, how do these thresholds and the Internet itself actually cause injury to industries within Australia?' That is a subset of what is being been talked about here. Everyone of these is the exact number of entries. I think it could be pretty clearly stated that, if all of those entries had to be processed, there would not be the corresponding benefit passed through to Australian industry.

If you look at the total number of entries that are currently processed or where goods are purchased off the Internet, you first of all remove from that any above the threshold. If you remove from that any that are within the threshold but where there still would not be a duty or tax liability—for example, goods from New Zealand and goods that would come in through a gift concession—and remove from that goods where even, if a company or individual paid the duty and sales tax, it would still be cheaper for them to buy those goods, they would still buy them. You then get down to the bottom level of where, if these thresholds were reduced, how much would actually flow through to increase sales to an Australian industry?

From the start today, the numbers that we were talking about were minuscule.

When you take out each of those other stages it becomes a very small number. If you look at the total quantity of goods below these thresholds which you would expect, if the thresholds were dropped, to flow through to benefits to the Australian industry, the quantity is very minute. If the level of damage that is being claimed is there, I would suggest it may be from causes other than simply the Internet and the thresholds.

CHAIR—Because this was, in the beginning of this inquiry, an issue that we took on board very strongly, we would be interested in hearing particularly from the Australian Fishing Tackle Association, Australian Consumers Association, Australian Retailers Association, Coles-Myer, the Internet Industry Association and customs brokers and anybody else who wants throw their bid in. Who would like to go first?

Mr MORRIS—I will enter into this fray. I will probably not rise to the bait from the Australian Customs Service as to administration costs and the revenue loss for my members. However, I would like to address some of the issues that were raised before lunch on taxing efficiency and what the tax process is all about in raising revenue, tax efficiency, equity in the process and compliance costs versus costs of administration. I commend the Australian Customs Service and the ATO for carrying out this survey. This is an area in which for many years we have striven to get some sort of a handle as to just what amount of cost benefit would exist and what type of revenue leakage would occur.

From our point of view, we have a different position here. We are looking at equity in the process of customs entry arrangements. From the 1996-97 statistics that came out of the Australian Customs Service figures, edition No. 7, there were 3.6 million house air waybills, which usually relate to one consignment; there were 1.6 million sea cargo automation consignments, which came to 4.72 million; and that resulted in 2.42 million customs entries being lodged with the ACS. That leaves 2.3 million consignments into this country that are so-called screen free.

The Australian Customs Service in its submission talks about 1.4 million screen free. Adding back in the number of consignments that come through the post and that would have a formal entry created, at about 20 per cent—that would be about 0.4 million—we come up with a figure of 2.7 million consignments being screen free or coming into this country without entry, whereas the ACS talks about 1.4 million. I just wonder where the other 1.3 million consignments have disappeared to.

On top of that, we know that not all consignments into this country are reported to the house air waybill level. They might be consolidated or reported once at the master waybill level. So there are significant discrepancies between the number of consignments that are screen free, and these would impact on the survey that was undertaken.

In addition, we would like to point out that the customs entry process today, in terms of formal entry requirements, is mainly electronic: 99.8 per cent of customs entries go through without any human intervention. So to talk about additional cost structures

here, in terms of ICDs or formal entries, we have to look at the direct costs and the variable costs related to this process. I do not think we have ever carried that out before with the ACS, so we really cannot get a handle on why the cost structures are what they are.

Before 1 April 1997, the cost of a customs entry was \$11.10. Taking out the ATT and Tradegate costs of about \$2.10 or thereabouts, we ended up with an ACS cost of \$7. From 1 April 1997, that cost went to \$22, when Customs invoked a cost recovery mechanism into the entry processing system to cost recover many of their costs related to commercial transactions. There are a significant number of transactions that do not attract any ACS costs; they are all export transactions. A lot of these transaction costs are related back to the customs entry transaction.

What we are saying is that those importers on record which require a formal entry are paying a premium to cover the costs of these 2.3 million screen free consignments. All we are talking about here—I do not have an axe to grind in terms of being a retailer and my marketplace being eroded through CDs or fishing tackle—is equity in the process and spreading the cost burden across all of those who are using the ACS systems commercially, rather than a small sector who are paying a premium.

I think that has addressed most of the issues that came out of the survey. I would like to comment that you really cannot make any objective comment upon these issues that are put before us without looking at some of the other issues that came out of the survey. So we will respond to the committee on the basis of what we see as the background issues that have come out of this survey by ACS-Nielsen, and also what comes out of the ACS's initial submission to the committee. Thanks very much.

CHAIR—Mr Austin.

Mr AUSTIN—One of the things I can comment on—on some of that I cannot—is that you asked what happened to the 2.4 million. The 1.5 million mentioned was from Australia Post; we did then mention that there were just under one million from air. If you add those two up, you get the 2.4 million.

Mr MORRIS—No. I am sorry, Mr Chairman, about just coming across there. There were 1.9 million parcels through the post. So if you add that into the 4.72 million, that goes to 6.6 million.

Mr AUSTIN—I also mentioned that it was actually probably more than that coming through the post. There are close on nine million consignments coming through the post. The 1.5 million I referred to are probably the ones on which duty would be collected, and referred to the duty forgone rather than anything else.

Mr MORRIS—Mr Chairman, I don't want to get into an argument over facts and

figures.

CHAIR—We would prefer that did not happen.

Mr AUSTIN—With regard to the cost and the way that it related to entries coming in, I am not in a position to comment on that. I do not know how that was arrived at.

Mr DRURY—That has been a matter of considerable debate in other forums involving the customs brokers and us. We have had those figures audited by professional auditors, who have vouched for them. They have been debated and disclosed at length, in their detail, to the Customs Brokers Council. They are up for review soon, and again that detail will be made available to those that pay the money.

CHAIR—Thank you for that. Senator Watson.

Senator WATSON—I just feel that perhaps the two groups should get together to enable the committee to have a reconciliation, because their differences are significant and I do think the committee should be satisfied about the accuracy of the figures. Would it be possible for you two groups to get together in some forum, or to have an independent evaluation for us?

Mr MORRIS—Mr Chairman, we don't have a problem. We meet regularly with the Australian Customs Service, and this will be just an ongoing meeting process.

CHAIR—I thank you for that. If I may say so, I think the thing the committee is really looking for is what I talked about before: we would like some cost-benefit analysis associated with making changes to the screen free limit or to the duty tax free limit.

Mr AUSTIN—At the outset we pointed out that the analysis of the survey has not been completed yet.

CHAIR—I understand that. But it will be important.

Senator CROWLEY—If this is known to everybody else, see me afterwards: can you briefly tell me what reason there is for why you get full cost recovery on electronic entrance and no effort for full cost recovery on the manual ones? Is that right?

Mr AUSTIN—No, not quite right.

Senator CROWLEY—Could you tell me briefly the detail of that? I guess the emphasis has to be on 'brief'. And what do you say to Mr Morris's comments—I would like to hear your comment about equity—that there are a couple of million people not contributing to the costs, or that the full cost recovery is being borne by some and ignored

by the people who are under the limit?

Mr AUSTIN—To deal with your last question first: I am personally not in a position to answer that. John may respond to that.

On the question of the entries, with formal entrance there are two ways of doing it, basically. One is to put in an entry by electronic means; the other is to do a manual entry. In other words, you do it on a piece of paper and submit it to Customs. The electronic entry has a cost recovery charge of \$22-odd. It is about double that for a manual entry, mainly because of the effort that is required to process a manual entry. It is just labour intensive, basically.

Mr MULDOON—I want to make one very important point. If these thresholds were reduced, and if anyone here were to go and buy a product—over the Internet or any other way—which was not available in Australia, you as a purchaser would then have to pay any duty, any sales tax and a \$22 cost recovery charge on that. I think it is of questionable benefit if you have to pay each of those amounts on something that was not produced here in Australia and there is no benefit going to flow to an Australian industry.

CHAIR—Are you talking about reducing the limits?

Mr MULDOON—I am saying if they were reduced. My view is that the number of instances where there would be a benefit truly flowing through to Australian industry is minute. In fact, if you look at it, there were very good grounds to have them raised. Our industry, of course, would push for something more of the order of the US ones, which are much higher.

CHAIR—Would the Fishing Tackle Association like to comment?

Mr DUNPHY—Thank you, Mr Chairman. It is pretty difficult when I have not really seen the survey. I can only report what our members say. I understand what Graeme says, that there was almost zero brought in, but during the month of November, at least from the six of our shops, people had been buying stock in and actually did get stopped and stung for duty for the first time. Maybe that was a result of that.

But the fact is that they do not appear on your survey, which is confusing to me. I also do not understand the \$1,000 limit, as opposed to the \$50 collection. If the \$1,000 is there, does that mean you have an informal clearance but you still pay \$50, or you do not pay anything?

Mr AUSTIN—If it is under \$1,000—

Mr GRIFFIN—Let's say \$1000 or under.

Mr AUSTIN—Just to go through the process, and if we just deal with the post at this point and leave—

Mr DUNPHY—The \$1,000 or the \$250—I am stuck on both.

CHAIR—I am sorry but I have to play chairman here: if we are going to have formal hearings, you have to address your remarks through the chair. We cannot have any bickering or discussion between two parties; it does not work.

Mr GRIFFIN—Could you give an explanation of the \$250 and the \$1,000?

Mr AUSTIN—We have a formal entry limit at which we require an entry to be put in formally, either through electronic or manual means. For postal traffic it is \$1,000; for air and sea traffic it is \$250. I will give you an example which may explain it a bit more, and I know there are examples of this in the handout that came at the beginning of this meeting. If a parcel comes in through Australia Post that has, say, a \$600 customs value, a formal entry is not required. It would then be screened and presumably we can actually know what is in the parcel. In most cases we do not, which is one of the problems with postal traffic. But it may be goods for which there is, say, \$55 worth of duty payable on those particular goods. In those cases we would require an informal clearance device and the \$55 worth of duty to be paid.

If there was, say, \$45 or \$48 worth of duty to be paid, then we would not require any form of entry, whether it be informal or otherwise, and the goods would be screen free. In other words, we would not be interested in them any further and they would just go.

CHAIR—Does the Fishing Tackle Association have any other comment?

Mr DUNPHY—On the \$1,000 limit, if it is an informal clearance on the \$1,000 it is very unlikely that the duty or the tax component to be paid would be less than \$50, surely.

Mr AUSTIN—If it was up to \$1,000 that would be quite right. But, quite often, a lot of the material coming in may not be near that—it may be \$300. Bearing in mind that, if there is no sales tax payable, probably the highest duty rate you can expect to pay is going to about five per cent and it may be somewhat less than that, in which case—

CHAIR—Is it not true that, if a parcel came in with \$1,000 worth of books, there would be no duty?

Mr AUSTIN—No duty.

CHAIR—Thank you. How about the Internet Industry Association?

Mr GRIFFIN—Before we go on, can I ask that the Fishing Tackle Association and the Customs Service possibly have some discussions with respect to the question of the survey in order to try to address some of those concerns. We would be very happy to get any written comment you might like to make on that issue when you can. We have had complaints from your industry about this issue. We need to be in a situation where we can address those complaints and we are not really in that situation at this stage.

Mr DUNPHY—We would like to do that very much, thank you.

CHAIR—Just before Christmas I went to a fishing tackle shop very close to my electorate office, I asked them if Internet commerce was hurting their trade and they said, ‘Absolutely not.’ So I just make that comment, for whatever it is worth. I can only report what they told me! Could we hear from the Internet Industry Association.

Mr WARD—If I took down the figures correctly, Graeme, what they were reporting was that the best estimate of CDs coming through the ports was around 180,000 to 270,000 per annum?

Mr AUSTIN—Yes, per annum. That is consignments—there may be more than one CD per consignment.

Mr WARD—Right. And, potentially, there are up to 10 to 15 CDs which would not be available for duty in those consignments.

Mr AUSTIN—Just a quick comment on that. What has come across in what we have looked at—and Australia Post might be able to answer this question—is that the consignments tend to come in under the two-kilo limit to suit Australia Post and to try and get them under the \$50 limit for Australian customs purposes, so it is a balance of how many CDs you can fit in a consignment to meet both those requirements.

Mr GRIFFIN—So it varies but, essentially, because they are conscious of those limits they tend to fit in with that?

Mr AUSTIN—Yes.

Mr WARD—My point is that there are not a lot of CDs coming in which are getting under the threshold, which harks back to some significant questions, and certainly a lot of publicity, about CDs getting in under the threshold. The second point to make, which I think I made at the previous hearings, is that many of those CDs are not currently available in Australia, which was Mr Muldoon’s point—and I do not know whether the honourable David Beddall managed to get his CD of Woodstock, which he could not buy

in Australia.

The point is that Internet commerce is not being significantly used to bypass either the payment of duty or to undermine the existing purchasing habits of Australians by sending people off to CD stores in the States to buy stuff they could buy down the street here. I think the Customs Service should be thanked for giving us some numbers to put to bed that myth. I think Mr Anthony used the figures of 10 to 14 per cent of all CDs purchased in Australia as coming through the Internet. It is just not the case.

CHAIR—You might also thank us for asking Customs for the numbers.

Mr WARD—Indeed. Thank you, Mr Chairman.

CHAIR—Does the representative of Coles Myer have a comment?

Mr CURTIS—Thank you, Mr Chairman. What we would like to do is just revert a bit and remember where we started. The position of retailers on this issue is predominantly one of tax neutrality and cost equity. It is very easy to be taken down some side roads when we start talking about the various issues. What we would like to see is the same goods taxed in the same way regardless of the method of importation, and we are really only talking about cross-border trade here.

If one were to order a CD—to use that example again—over the Internet from an Australian retailer, that Australian retailer would be obliged to pay Australian tax. If that same CD is ordered over the same medium, which is the Internet, but from an overseas supplier, and they can configure that importation to fit within the thresholds, then they will not be paying Australian sales tax. I think that is a fundamental issue that we are looking at—and not only today; this committee is also looking at the future, and there is a future which suggests there could be a migration from one mode of importation, from one supply channel or from one method of buying to another, if it is encouraged by a tax driven loophole, if it is encouraged by Australian taxpayers funding a particular supply channel. We would like to keep that first and foremost in mind whilst we consider this question.

CHAIR—When you appeared before the committee before, as I recall it Coles Myer did not indicate a whole lot of interest in establishing a web site and putting catalogue sales up on a web site. Have you rethought that issue at all?

Mr CURTIS—It was not that we were not giving the issue due consideration. It is just that our consideration is rather in depth and we are looking at it as a business opportunity which has to be evaluated very carefully according to its merits and therefore according to how much resources we will commit to it. We have signed an agreement with Peapod from the US to look into setting up web sites. It has not happened at this stage, but we are certainly looking at the business opportunities. Whether that also includes setting up web sites so that we source product overseas and ship directly to

Australian consumers is probably a separate issue, which we have not yet addressed.

CHAIR—Didn't Coles Myer, through Myer Direct, buy Lands' End catalogue sales out of Australia?

Mr CURTIS—We have, with Myer Direct, a home page but it is not one on which you can actually—

CHAIR—But didn't you buy Lands' End?

Mr CURTIS—I do not know that we actually bought Lands' End. We have ceased our association with Lands' End. They were associated with us and they were running, through us, direct services. But that relationship, as I understand it, has now been terminated and my director is doing it independently.

CHAIR—I tested that catalogue three weeks ago. I found the Lands' End web site and bought a shirt that I had been buying through catalogue sales in Australia for three or four years and saved—including postage for one shirt only, which is pretty dear—something like 40 per cent. And that is not as a result of sales tax or duty. I would suggest to you that there is a lack of competition here somewhere.

Mr CURTIS—I think competition is a separate issue.

CHAIR—Perhaps I am being naive.

Mr CURTIS—No, not at all. One of the comments that the Customs Service made in one of its written submissions was that reducing the threshold so that goods were taxed equally would not improve Australian retailers' competitiveness. We would tend to disagree with that. We think it would improve competitiveness, simply by levelling the playing field. At the moment, if there is a tax advantage, it tilts the playing field in favour of one particular method of supply or of importation. We would like to see that balanced.

Senator GIBSON—I understand what you are saying about wanting to see the same level of tax being paid regardless of where it came from, but can we imply from that that you are in favour of taxpayers spending their money chasing small amounts of tax just so that you have a level playing field?

Mr CURTIS—No, not necessarily at all. Under the cost recovery system that Customs has at the moment, it is user pays. When that was introduced, parliament said—and this is the quote—'the service delivery costs with sectors of the community which generate workload, the workload should be aligned'. If most of the cost recovery is tied up with the processing of an electronic document or a manual formal document, I think evidence has been put to the committee before by customs brokers and by other parties

about systems in Canada, for instance, that offer a halfway house where there are reduced costs to small importers, but they still bear the burden of paying for that processing. At the moment, business pays—as part of a normal cost of business—the user pays fee. All this is, is a reconfiguration of consignment so that the business is done from offshore and they can get in under the thresholds by multiple consignments. We would see that there is a possibility to come up with an equitable user pays system.

Senator GIBSON—As long as you are staying by user pays. We do not want to see taxpayers' money being wasted—

Mr CURTIS—No, I do not think it should be cross-subsidised at all, and at the moment it appears to be.

Senator CROWLEY—I just want to make a small point. I am pleased to see, Mr Curtis, that on behalf of Coles Myer you want a level playing field. You would therefore want everybody to have the same tax benefits that Coles has for bulk warehousing its products, whether it gets them from overseas or in Australia. When you are finished commenting about that, which is probably not fair and not really part of this comment, I would also like it if you could tell me, in one word, why the same item at Coles costs differently from one state to another.

Mr CURTIS—I cannot answer that question. I am here only to comment on the terms of this reference, I am afraid.

Senator CROWLEY—You should. Some of us actually follow these things. For example, Price Watch are very aware that Coles has a tax advantage compared to other providers in the same area—supermarket providers. So where does the level playing field finish? I think those are very important considerations. If you have a benefit in one place, equity, if we are going to look at it, has to apply across everything.

Mr CURTIS—With respect, I did not see the article you refer to but I have heard some comment on it. To the best of my understanding, that is an advantage that is freely available, depending on how a company wants to structure.

Senator CROWLEY—We will talk about it later, Mr Curtis.

Mr CURTIS—Certainly.

CHAIR—Mr Marzbani, do you have an issue you wish to raise?

Mr MARZBANI—There are two questions. One is in terms of choice. Last time I went to a Coles Myer or Grace Bros shop to look for a cotton shirt there was really only one style of cotton shirt available, whereas if you look at most US catalogues you find there are dozens and dozens of styles, colours, fits, shirt sleeve lengths and everything

else. It would seem to me that for the price of what you would pay for this cotton shirt in Australia there is a significant advantage in getting a better product for the consumers. The consumer is being better serviced, regardless of price, by buying a product that fits better and is the right colour. That would be the first issue.

On the second issue, in terms of level playing fields, obviously consumers do not have necessarily the same buying power to get the same wholesale price or the same shipping rates. It would seem that somewhere in the middle there is a de facto tax being paid anyway by the consumer to actually import products which they want. One of the things that then become an onus on major suppliers similar to Coles Myer would be to better service clients within Australia. I guess the indirect question to them would be: what are they doing and, based on their own research, how important was the pricing differential as opposed to other service issues and did they include that or not in their own research?

CHAIR—Do you want to comment, Mr Curtis?

Mr CURTIS—Yes. To start with the pricing differential, it is determined, I think, depending on the segment that we are talking about. That gets back a little bit to the nub of what we are on about here. If we look at trade figures in aggregate, they distort the whole pattern. We have heard from the Fishing Tackle Association. They would have a specialised segment of the market and probably product is only sourced from one or two certain countries. If we look at all the aggregate data of trade imports from around the world, they will tend to skew exactly how much trade may be coming through the Internet in relation to retail or manufacturing sectors that are affected by it.

Our pricing strategies are driven by the local market and also by individual market segments, whether you are talking about textiles, clothing and footwear, apparel items, fishing reels or books. Each one of them will have a separate pricing strategy. Sometimes it is also influenced by manufacturing capabilities, and whether there are specials run by certain manufacturers and that is passed down the line.

When you come to choice, it may be that the Internet will always offer more choice. Books are a good example, where Amazon is able to offer a wide catalogue of books that obviously cannot be carried in most department stores and most book stores. That aspect of choice will always be there and I think that is a competitive aspect, simply as service is a competitive aspect for retailers to try and emphasise. But I do not believe that should be skewed because of a certain tax advantage.

CHAIR—I would make the comment, though, that in the example I gave of the shirt I was comparing a US web site against an Australian catalogue sales operation. That sales operation, in terms of the shirt, I suspect, is at least 50 per cent, if not more, cheaper than the equivalent retail in Australia—if you can find it. We have got a minute left. Does anyone else have any comment on this segment of the inquiry?

Mr MULDOON—Could I make one parting request, that if a proper cost-benefit analysis is done it include not only the potential to increase the upper threshold to 15 but also the possibility of the duty and sales tax level going up as well as down, as this document seems to consider.

On the other one, I go back to a point that I think you raised very much in Sydney and that Customs has raised a couple of times, that these should not be viewed in isolation. If it is to be a practical change, you might have to think how that impinges through other concessions—for example, the gift concessions. Otherwise your shirt will simply come in as a gift. The question arises: if you do not change those concessions, will every person in Australia then have to pay duty, sales tax and potential cost recovery charge on every gift that their relative from overseas sends them?

CHAIR—Mr Muldoon, I would say to you—I think on behalf of the committee—that when we started this inquiry this segment we are talking about this afternoon was huge; it was really big. That was about all we talked about. As this inquiry has progressed, other issues have broadened the inquiry and this issue has tended to recede. I think the numbers we have heard today make it recede even more.

Nonetheless, our secretariat will negotiate with the Australian Customs Service and, indeed, with Australia Post to get as accurate data as possible, including cost-benefit analysis, in terms of both going up and going down. Although advising government on that issue outside of the Internet commerce issue is not part of our brief, nonetheless we might decide to do it anyway—who knows. If we finally got some accurate data the government ought to know about it, that is for sure.

Thank you, everyone. We will break for afternoon tea.

Proceedings suspended from 2.31 p.m. to 2.50 p.m.

CHAIR—We are now at issue 4, growth opportunities for Australian SMEs. In contrast to the previous issues, there has been less evidence received about the potential growth opportunities afforded to Australian SMEs by the growth in Internet commerce. The committee is seeking more evidence about the awareness, knowledge and willingness of the Australian SMEs to include where appropriate the Internet in their business plans. Representatives from the Department of Foreign Affairs and Trade and the Department of Industry, Science and Tourism will jointly introduce this discussion issue.

If there are any participants around the table now who have not yet been sworn or made an affirmation, would they please stand now for that. I remind new participants, when they are about to speak, to state their full name for the purposes of *Hansard*. You will have to speak up; we cannot hear you.

Mr TODD—DIST welcomes the opportunity to make a further submission to this

inquiry. To set the scene I would like to outline briefly how we look at electronic commerce from a definitional point of view. I will then go through the wide ranging impact that electronic commerce is likely to have, the benefits of electronic commerce for SMEs, considerations that affect decisions by SMEs in terms of adopting electronic commerce, the role for government and, lastly, what we in DIST are doing. My colleagues from DFAT and Austrade will then discuss trade and export issues.

In terms of a definition, a commonly accepted definition which we work with is that electronic commerce is any form of business transaction in which parties interact electronically rather than by physical exchanges or direct physical contact. I accept that Internet trading is obviously just one subset of that and I will try to draw that out as I work through.

In terms of the impact of electronic commerce, the convergence of new technologies and new business practices, from our perspective, will revolutionise the way that both businesses and industries operate and conduct their activities. Electronic commerce will reshape global trade, accelerating in many instances the breakdown of barriers; and we perceive that those countries that are rich in information skills and products will basically prosper well in the future.

In terms of economies in total, if one looks across economies such as the US, Singapore, Ireland, Malaysia and others one basically sees that they are really trying to capitalise on the information and communication industries and on adopting an economy that is based around an information economy and really getting the productivity benefits out of the technologies that are available. In terms of industries being transformed, a number of speakers earlier today have already made the point that they have been transformed and they are being transformed. If you look at banking, you are seeing branches being replaced by ATMs, fax, telephone and Internet banking. The change is upon us and will continue at some pace.

If one looks across industries such as the retail industry, retail supply chains are being drastically changed through the adoption of online technologies. Media, entertainment and travel are other examples. In his presentation earlier today, Mr Marzbani ran through the stats and a whole host of examples of where the technologies are coming into play in terms of software, books, music, magazines and hardware. You can then go across industries such as tourism. With global companies—and we are seeing this in the information industry, where the speed of change is really very fast—we are now getting around-the-clock design, and so there are single firms that are basically designing around the globe, going 24 hours per day to try and get new products through as quickly as possible; and you can do that, obviously, using Internet technology.

In terms of the benefits for SMEs, obviously there is a potential for a close relationship between business and client, with the role of intermediaries often being reduced. An astute firm will use this closer link with clients to basically customise

products and meet a consumer's demand more effectively. The electronic interaction enables a firm to improve its responsiveness, timeliness, quality and after sales service to customers. New business models are really constantly emerging that lower the barriers and cost of entry for new competitors. In such situations, the fast response businesses, which quite often are SMEs, are well placed to prosper and thrive.

There can also be significant efficiency gains and cost savings. These come about, as a number of speakers have already outlined today, in terms of manual, paper based processes being replaced with automated ones. More importantly, it can be achieved by entirely new business processes that become possible through electronic commerce. For example, once micropayments or very small payments become accepted, one can envisage journalists or small businesses with a particular specialisation dealing directly with readers without the complex and expensive processes currently in place in terms of publishing and distributing paper publications.

If one now looks to the considerations affecting SME take-up of electronic commerce, I think it is accepted that the day-to-day pressures on small business make it a significant challenge for SMEs to adopt EC technologies but, at the same time, market pressures are inevitably forcing businesses to head down this route, and the benefits are really for the early adopters. In a number of the examples that I give and that Mike Adams will refer to later on, it is the early adopters that can capture some of the major benefits.

In another instance, SMEs are basically driven to change. In, say, the automotive industry, the majors there will basically make it a requirement of business with SMEs that they move to adopt electronic commerce technologies. And certainly, if one looks globally at some of the automotive majors, one will find that they have nearly a 100 per cent relationship on an electronic basis with, for example, suppliers.

I will now step back and look at the role for government, and I previously outlined this in the DIST submission to you in December last year. The Prime Minister set out the role he sees for government in the industry statement *Investing for growth*, and there were really four key elements that were highlighted in that: strong leadership, encouraging business and consumer confidence, getting Australia on line and fostering the development of the information industries. I will very briefly summarise this because it is already on the record but it forms an important backdrop to SME adoption of online technologies.

In terms of policy leadership, a ministerial council has been established under Senator Alston's chairmanship to establish and implement a whole of government action agenda for the information economy. The National Office for the Information Economy is developing, coordinating and overseeing policy. So we have got a coordinated federal government approach, working closely in cooperation with the states and industry. Business and consumer confidence really rests on a light touch regulatory environment—and there has been quite a bit of discussion on the taxation front today—and basically a

commitment from the government that it will not introduce a bits tax and will ensure that goods ordered and delivered electronically remain tariff and customs duty free. In terms of getting Australia on line, the government, as a leading edge user, has a major role to play, and that is spelled out in the *Investing for growth* statement in areas such as education and training, raising awareness, access and, importantly, the area Mike Adams will cover: on-line trade strategy.

Moving now to what DIST will do, as part of that statement there is a business on-line initiative which is primarily focused at SMEs in terms of fostering the strategic take-up of the latest on-line technologies by SMEs. Initiatives include—and I will run through these in a little more detail—firstly, providing support for training and demonstration initiatives across the states, and that is a network of centres around Australia, to allow firms to access the latest on line commerce and business technologies; secondly, promoting the adoption of on-line commerce and best practice business systems across industry sectors; and, thirdly, as I mentioned following the www.consult presentation, encouraging the development of a much better statistical base in terms of on-line technology. I seem to recall being vigorously questioned on the stats front at my last presentation, and the difficulty is that for definitional reasons and because of other problems, we have not got a good statistical base at the moment. We need it, given the importance of this issue.

In terms of the network of training and demonstration centres, we are supporting an initiative called the Australian Electronic Business Network. It is a national, not for profit, independent organisation whose main objective is to facilitate electronic commerce uptake amongst SMEs. Essentially that network will deliver a range of services to SMEs, covering all facets of on-line technologies, and it will really provide a strong base for ensuring that Australian SMEs are competitive globally.

This type of initiative is not unique to Australia. If one looks at OECD member economies, the majority will be into this technical diffusion type initiative, which is really particularly important with the information and communication technologies, given the really rapid pace of change that is occurring.

The initiative will involve workshops which are delivered nationally through physical sites in each state and territory capital city. In addition, there will be a virtual presence. Remote SMEs will be able to attend workshops through videoconference, CD-ROM and web site initiatives. Third-party providers will also be involved in terms of this tech diffusion initiative.

I move now to the demonstration projects initiative, which we call the IT on-line program. There we are providing support to consortia on collaborative projects involving small firms, business associations and universities. The projects basically test, trial and demonstrate new and innovative on-line technologies that improve business competitiveness, and kick-start the broad uptake of these technologies by Australian

businesses, particularly SMEs.

The successful projects basically demonstrate how small firms can adopt and adapt new on-line technologies to deliver real business benefits. Conceptually, if you think of the three players basically being businesses, individuals and governments, the bulk of the benefits to date have probably been captured in the business-to-business on-line technology commerce area. Today we have obviously focused quite a bit on business-to-individual or customer situations and this program will cover those and also the business-to-government area.

We generally provide grants of up to 50 per cent for project funding and that might amount to around \$150,000 a project. The program amounts to approximately \$1 million a year. It is a three-year program.

In the last financial year there were eight successful projects. This year we are just coming close to the end of the first round. There were well over 100 quality applications basically spanning those three areas that I just described.

The types of project that we fund might be, for example, in horticulture where we have a pilot program for sale and distribution of Australian horticultural products. It will assist the development of a full Internet trading system to provide consumers and supplies with the facilities to trade directly with full transaction security, full accounting and audit trail and full access to transshipment information. While the pilot is initially aimed at establishing the business processes and infrastructure, a range of international trading options, from option through to the spot market and long-term supply, will all be considered. Initially, that project is going to focus on apples and citrus fruits, but we plan to extend it to other lines, including vegetables.

Another example is in the meat industry. An Internet based service will provide a practical interpretation for commercial operators, from producers to retailers, to understand and comply with food industry legislation and regulations from local government level through to export. The proponents are working closely with the industry bodies—government agencies such as AQIS, the ANZ Food Authority and others—basically to provide a mechanism for very simply accessing the regulatory arrangements.

Intrawool, the Australian Wool Exchange, is another example. One is looking at something like 14 processing stages from sheep's back to a finished garment. Bales need to be traced accurately through all these stages because, if a single bale of wool gets out of line or has the wrong quality, that can throw a whole production lot out at the end of the process. This process is aimed at defining the market information needs of wool industry users—both domestic and international—and growers to establish an information transfer system that meets the needs of tracing that information from sheep's back to finished garment. Very substantial savings can be achieved from that project.

Another one which basically covers both an industry element and a government element is the pharmaceutical electronic commerce and communications project. In this case that is an example of the department providing seed funding to a range of players across that industry to implement electronic commerce projects. It is about electronic commerce in the pharmaceutical supply chain from suppliers to wholesalers to distributors. We have a number of projects spanning those sectors. Currently, there are significant losses, wastage, in this type of project. If successful—and the early results are looking good—it will result in major benefits for the industry.

On the high performance computing front we have a project that allows SMEs access to super computing facilities via the Internet. That will open up some significant advantages for them in terms of design and production.

CHAIR—Does DFAT have an opening statement?

Dr ADAMS—I would like to make a very short statement on behalf of DFAT, and then my colleague Greg Joffe will say something very short about Austrade. DFAT and Austrade, in consultation with other Commonwealth departments and agencies, are working to develop recommendations for an on-line trade strategy. We anticipate that that work should be completed and a report in ministers' hands by the middle of this year.

The work to develop domestic and international elements of a possible on-line trade strategy is in two parts. The first part led to the publication of *The new silk road* report, which was discussed in this committee before Christmas. It was released by Mr Tim Fischer early in September of last year.

The report came to a number of, I think, fairly significant conclusions. Firstly, the observation was made that Internet commerce—that is the focus, the subset, of electronic commerce that we are looking at—is the fastest growing type of international value added trade. Admittedly it is growing from a low base, but it is the fastest growing at the moment.

Secondly, Internet commerce provides very significant growth opportunities for Australian SMEs. We looked at several case studies where Australian SMEs have been able to seize opportunities either by re-engineering their operations, extending their market outreach or increasing the quality of service provided to customers via the Internet.

Thirdly, we established that micro companies and very small businesses generally can now seriously contemplate internationalising their businesses. To this extent I think that traditional trade theory needs to be revisited, because in the past it was always believed that small companies below, let us say, four or five people or below an annual turnover of a couple of million dollars or so could not successfully internationalise their businesses.

Fourthly, we emphasised that the potential of Internet commerce to generate new areas of competitive advantage for Australian companies really hinges on the Australian government working very actively domestically and internationally to create an enabling environment.

We went through some elements of that enabling environment in this publication, *The new silk road*. We talked about, for example, the need to raise awareness amongst business of opportunities, the need to have a competitive taxation and tariff regime, access to high bandwidth, improving information flows, and so on.

I would now like to talk about the second part of this new silk road process. What we want to do in this second part of our work program—which really takes us up to the middle of the year and to recommendations to ministers—is test the on-line policy framework which was advanced in *The new silk road* first report to see how we can fill out ideas and how the different elements of that on-line trade strategy fit together.

The idea of the second phase is to get a better insight into how the Internet is being used in different companies around Australia as well as in overseas companies, to get a better insight into the potential impacts of the Internet on employment, including on job specifications, outsourcing and skill levels, and to assess progress overseas in developing enabling environments for on-line business. We are trying to do this on several fronts: we are actively involved in discussion with Commonwealth agencies and with state governments, we are holding round table discussions with industry and other stakeholders, we are involved with Monash University and various other groups trying to develop case studies of Internet usage, we are doing a national Internet survey and we are actively involved in looking at international trends in the use of the Internet and in the policy environment.

Mr JOFFE—We have basically three points we would like to cover. Firstly, there is our finding that the Internet is actually just a new tool for exporters. This relates specifically to your question about prospects for growth for SMEs through the rise of the Internet in electronic trade. Secondly, we are finding that, although it is a tool and a very useful tool, it does not replace a lot of the other things that exporters have to do. Thirdly are some thoughts we have had so far on what governments should and should not be doing in this area. We are finding that the Internet is a very good tool for exporters. It opens, and will continue to open, further opportunities for export. A very visible example is, for instance, the Austrade Internet site, World Direct. For those of you who have seen it, the Internet site has been around for about two years. It has about 8,000 to 13,000 users per month—that is, 8,000 to 13,000 people who look at it a month—and 170,000 to 220,000 hits per month. That is how many pages are being looked at.

So what does that mean? It means that 4,600 exporters are now listed on that site as Australian suppliers, and already there are about 200 requests direct to those suppliers from people browsing the web and looking at the Austrade site. People are listing on a

site, getting visibility in this big Internet world and actually beginning to receive orders—at the moment 200 a month, but presumably this will continue to grow—directly from having that listing. We are also seeing hit rates and user rates rising. So, clearly, this visibility is an issue and the more you can get people out there the more you create that channel.

We should also note that it is not changing the rest of our business. We find that the calls and requests into Austrade are not changing at all. In fact, if anything, it seems to act as cross-promotion, so that people learn about us on the site and come across on the telephone or are referred via the telephone to look up information on the site. We

particularly recommend the latter course for students because you can get them to go to the web site instead of tying up your own personnel.

A second area where we are finding that the incident is a useful tool is access to information. The obvious place is directly—any exporter can go on line and look for the information they need and look for opportunities they need. But, equally, you can get information through information capturers, filterers, quality assessors and disseminators. In talking about the capturers and disseminators, it is about looking at what you currently do. In Austrade's case we help exporters sell overseas, and we think about how we can capture information and disseminate it using the web as yet another tool to do that. A classic example is that at the moment we provide market information about different markets. If you wanted to sell shoes in Indonesia, you used to call our Indonesian office and ask about the market for shoes in Indonesia, but more and more that information will be available on the web and you will go to the Austrade site because you know that is where you are likely to find that information.

It is equally so with opportunities. We have posts around the world looking for opportunities. When they found them they were fed back to exporters in Australia, but we are now trying to do that more and more through the web. If an opportunity turns up we need to know how to pass it back to exporters in Australia to create further export sales.

Finally, we are looking at ideas like facilitated advice sessions—dynamic market intelligence and advice—using the web as the interface by which we interact with the exporters. These are ways in which the web and the Internet and electronic trade are giving exporters better accessed information, particularly SMEs who would not have the capacity to do it on their own.

The Internet is providing a new distribution channel, as we have heard. We are finding this particularly for software providers and information providers. The classic example cited in our submission is Sausage Software, but the ability to create a product and then distribute it worldwide through the web is yet another way in which the web can act as a tool to help SMEs export.

The second point is that, basically, although it is a tool it is not going to replace all the other tools that exporters have traditionally needed. If you are an exporter, you have to find general information about exporting. You have to go and collect information on the markets you are interested in. You have to prioritise your markets. You have to decide where you are going to go first. You have to go to the country and build relationships. You have to make contacts and you have to decide who you are going to deal with. Then you have to have ongoing relationships to actually make things happen. You have to follow up and, if things go wrong, you have to be able to turn up to make things go right.

Very little of that will be replaced by the Internet. We think it is important to stress that because the Internet is not the panacea for a Australian exporters. It is a tool and should be used in conjunction with lots of other tools and used intelligently, which I think is what this meeting is about.

As was pointed out in the first speech this morning by www.consult, the people who are currently using the Internet are very highly educated, highly discriminatory and highly paid people, and there are not that many of them in the world today. If you look at Australia's export patterns, not that many of them are buying what we produce at the moment. I will come back to that point in a second. But for a hell of a lot of our traditional exports, commodities, ETMs and even services, you are still going to have to use all the classic tools, plus use the web as yet another tool to try and become a better exporter.

To address that particular issue, there is an opportunity using the web because the people using it are highly educated, highly discriminatory and highly paid and, in particular, there tend to be a lot of Americans at the moment. The world direct site for Austrade gets about 40 per cent of its hits from overseas viewers and of those, the highest number of hits is from the USA.

In terms of this visibility issue again, if you actually are selling something that is information rich and that is targeted at Americans who want to find out a lot about the product and want to learn about it, it is a very good tool and it will work to give you sales that you otherwise might not have got by standing at a stall at Comdex with 50,000 other suppliers of software. The point is it is a tool that should be used but it will not replace other tools.

My last area is just some thoughts we have on where the role of a government agency like Austrade is and where it might not be. We are finding that the three areas where it is critical that Austrade do something are credibility, visibility and just delivering our standard services better and more efficiently.

Overseas Austrade spends a lot of time opening doors for Australian exporters. That means the senior trade commissioner picks up the phone and calls the person who is involved in deciding what to do with this contract and is able to organise a meeting

because we are the Australian government and we are representing Australian exporters. That is an incredibly valuable role, particularly in developing countries.

We think that there is an analogist role, as the chairman and also the tax office referred to this morning, in terms of credibility. Having an Austrade site where somebody looking to buy a good across the Internet can know that this is a government site and these are exporters who have gone through some sort of qualifying procedure—they have been advised on exports, they understand what exporting is and they know what they are in for—is a hell of a lot more comforting than finding Joe Bloggs Incorporated somewhere on the net, when you do not even know where their home base is. We think that one of the government roles is to give credibility to Australian exporters on-line.

The second is visibility. As we said, we are getting between 170,000 and 220,000 hits a month. That is visibility. If an Australian exporter wants to list, they have their own web site, but they can also list through an Australian government body like Austrade, and that allows them to increase their visibility worldwide.

We are doing this both on our Australian site and also international sites, for instance, in Japan and Korea. So if a Japanese person is looking for furniture and searches in Yahoo.Japan in Tokyo, not only will they find the local producers, but they will also be linked directly through our site to Australian producers who are export ready to sell furniture in the Japanese market. It is another way to give visibility that otherwise might not have been available.

We should stress at this point that that role is in no way in conflict with service provision by ISPs, the Internet service providers, or any other service providers. If I am Joe Exporter or Josephine Exporter, I can list on any ISP I want and I should have my web page on any servers I want. The ability to list on a directory like Austrade is just yet another way to increase visibility, in no way detracting from your other commercial relationships or your commercial relationships with other providers. One or two last points on visibility—

CHAIR—I am sorry but we are here to try and learn something, not as an information session. You were all supposed to talk for 15 minutes and we have gone for almost 45. With regard to the countries that are outdoing us in terms of Internet commerce, can somebody tell me if that is because of government encouragement or intervention, or is it because of private sector initiative and competition? Have we got any views around the table? No comments! What kind of government grants did Bill Gates get? Nobody knows.

Mr GRIFFIN—DFAT can comment—it is okay.

CHAIR—How do we go about getting small business, SMEs, to get up web sites and get involved? Why aren't we—is the cost too high? IP providers: is the cost too high?

Is web site establishment too expensive? What is slowing them down?

Mr JOFFE—Clearly, the Americans did not need anyone to hold their hand. Clearly, the Americans developed the web and they are very good at it, and it has not been because of government involvement. However, in terms of smaller countries that are trying to raise their visibility, the Malaysians have tried very hard to build a super corridor, the Scandinavians are trying very hard to increase their web presence, and a lot of what you have heard today is about how Australia is trying to increase credibility and visibility for Australian exporters. I do not know that the American example, and Microsoft in particular, is the only example we can take.

Senator COONAN—What are the inhibitors, then, as you see it?

Mr JOFFE—To Australians getting on line?

Senator COONAN—Yes—to using this technology.

Dr ADAMS—If I can take up that point, we have been doing round table discussions around Australia, in all the capital cities and some of the regional centres, looking at a whole range of Internet commerce related issues including—

Mrs CROSIO—Excuse me for interrupting you. Round table with whom?

Dr ADAMS—Round table with business and state governments, and with some community groups as well. I am just looking at a summary of a round table discussion that we held at the end of November in Adelaide. One of the general issues that was raised was the general lack of awareness; that there were some areas of the economy, particularly, let us say, industries like printing, the on-line industries and research based industries, which were very much aware of the Internet and what it can do in enhancing business performance, but then there were large swathes, particularly manufacturing industries and some areas of retailing, where that was not the case. There was a feeling that awareness was, generally speaking, low.

There were also some people that argued that, from a policy perspective, there was not a clear articulation of a vision about where the economy was going in the medium to long term and where electronic commerce and the Internet might fit into that medium- and long-term economic vision. People talked about skilled labour, and there was a real concern that we lacked people with relevant IT training and skills. In particular, there was concern that those IT skills were not being integrated into business strategies, that IT was looked upon as a separate issue, whereas really it was an enabling tool in terms of developing business. People also talked about the need to build relationships overseas, not to see the Internet as the be-all and end-all but, as Greg was saying, to see the Internet and electronic commerce as part of broader business strategies.

A lot of people talked about infrastructure problems. As I said, I am looking at Adelaide, but it was true of meetings in Western Australia, the Northern Territory and all round Australia. There was a general perception in rural and regional Australia in particular that there were major infrastructure problems for businesses wishing to use the Internet as part of their key business strategies.

Senator CROWLEY—Infrastructure means what?

Dr ADAMS—They were talking about bandwidth. They were talking about the costs of accessing the Internet, and the feeling was that costs were too high. In many rural areas you have to pay an STD charge; you cannot pay a local charge. They were talking about problems of slow speeds for transmitting data. For example, we talked to various businesses in Alice Springs and Darwin that have got great ideas about potentially selling Aboriginal artworks. There could be a vast international market for those Aboriginal images. But the problem is that you can watch the images being built up on the screen and it might take, say, five or 10 minutes for the image to form. That is, perhaps, a real turn-off. You want to have an image that builds quickly if you are going to be able to use it as a genuine marketing tool. There were many examples of that sort of infrastructure problem.

There are also problems about transport logistics. Not so much, of course, if you are involved in services, but if you are involved in some form of manufacturing, particularly in rural and regional Australia, then various people talked about problems and deficiencies in transport logistics. There were also various people who talked about taxation issues and problems in terms of getting a high rate of return on a substantial investment in developing a web site over a reasonable period of time.

Senator CROWLEY—Did you get any good news?

Dr ADAMS—There were some fabulous stories, yes.

Senator COONAN—Can you give us one?

Dr ADAMS—Perhaps the most impressive example I saw of Internet commerce in the trips that we made round Australia was in Alice Springs. It was a company called Centrebet. This was a company that was started as a two-person operation five years ago. Two years ago they introduced the Internet more or less as a kind of business toy but now it is fully incorporated into their business. Something like 50 per cent of their business comes via the Internet and, by the end of this year, they are anticipating that 80 per cent of their business will come via the Internet, mainly from the United States but also, strangely, from some of the Scandinavian countries.

This company is now employing 20 people on a permanent basis and 20 people on a casual basis. So there you have an example of a company which is growing

phenomenally, to the point where its returns, its turnover, have increased by about 50 per cent a year and it is now turning over \$70 million a year, or it did last year.

CHAIR—Can the antiquarian booksellers tell us why they became involved in selling their books through the web, how much business set-up they had to do in other countries before they got involved, and what the results have been?

Mr NAGLE—I am Martin Nagle, representing ANZAB, although I am not a member of ANZAB. I am sorry the President could not attend here today. I think most antiquarian booksellers in Australia were already computer literate. They had databases in place, and they also produced hard copy catalogues which were fairly expensive to distribute around the world. To send a catalogue to America might cost \$2 or \$3, including printing costs and that sort of thing. So when the Internet came along, especially the World Wide Web, it was very obvious that here was just an extension of a business practice which they were basically already involved in.

The costs, basically, to get on the Internet for most of the antiquarian booksellers was very minimal. You can get a web account—I do not wish to advertise—with Ozemail for \$25, and you can host a web site there; you can put up five megabytes of information, which is equivalent to maybe 10,000 catalogued items, and you get a visibility throughout the world for basically no cost from then on. Ozemail hopes that you will log on on a regular basis and surf the web, and they will charge you \$5 per hour to do that, but if you do not do it the costs can be very small. I think most businesses could probably set up a site extremely cheaply and have what looks like a very large presence for a small amount of money, but that is if they have already got computers in place. Of course, if they have to buy computers and set up databases and things like that, then that is an extra cost.

In the case of ANZAB, most members of ANZAB have now set up web sites, and they also send their catalogues and general stock items records to central databases, which are mainly in America. Basically there are about four of these very large databases which you can search by topic or author or whatever, and up will come the number of hits record and then you can contact the particular dealer whose book you are interested in. Then it becomes a matter of e-mails back and forth saying what the condition is, and you negotiate directly with the person.

CHAIR—Is the Internet business now ancillary for those who have web sites, or is it an integral part of their business?

Mr NAGLE—It is an integral part of their business. I know of one situation where it is now about 30 per cent of the business, and that has grown in about a year and a half.

CHAIR—Thank you for that.

Mr MARZBANI—I will very quickly answer a question that was put before:

What is really going on? Are we behind or not? In terms of speed of networks, we are in absolute terms faster than New Zealand, Singapore and Malaysia, without question—whether you are in Sydney, Melbourne, Brisbane or Perth, which is where we are testing the major providers every hour, 24 hours a day, seven days a week. We make 47,000 phone calls a month to determine that factually. Foreign Affairs and Trade has had no interest in looking at that data whatsoever. It is worth while giving them a serve, I think—DOCA got one earlier!

In terms of costs of Internet access for consumers, we are basically not too badly off compared to the region, if you look at the cost performance and service support that we do get here. In terms of business costs, again, we are not too bad. We are, in fact, in reasonably good shape compared to Asia, especially for digital connectivity. We are still much more expensive than the US, but that problem is consistent around the world; it is only recently in Japan where the NTT—the dominant telecommunications carrier there—has moved towards providing lower cost business connectivity. The rest of Asia, South America and even Europe are having trouble with that.

In terms of supplies, skills and resources, we have everything going for us. I will mention just some of the things from a business point of view, and this is from the SMEs that are involved with the Internet. The primary thing that they actually do with the Internet access is e-mail; 65 per cent of them said that e-mail is the main thing they do. The No. 2 thing they do is business research, similar to what you are talking about, at about 15 per cent; things like file transfer comes in at about 4 per cent; the rest of it is noise. It is not electronic commerce yet, but you have got to walk before you can run, and I think that is what this piece of data shows.

The key application with the web presence is product promotion and advertising, not necessarily sales of the products. What they are doing is trying to promote their products, and they are saying it is very low cost—\$25 or \$50 a month to be able to tell people about their product. However, to complete the circle, if you go back to the original Internet commerce model, for me to tell every American business that I have got a really good product is still going to cost me money: for \$25 they are not going to know about me when you have guys spending half a million dollars in advertising to make sure everyone has a look, has a trial and tries the product. None of that stuff is changing at all, so it is important not to kid ourselves. Fifty per cent of enterprises say product promotion and advertising is what they primarily do. Then there is information dissemination at 10 per cent, information retrieval at about eight per cent, and fax e-mail replacement at about eight percent.

Security of data and transactions is the big concern out there for enterprises that are involved with the web. That is the main thing, and you can understand that. The problem is to get it right for a large company of 1,000 people. Let us say it costs \$100,000: that is \$100 per person within that company. To do the same thing for an SME with, let us say, 25 people, if it costs me \$50,000, it is still costing me \$2,000 per person.

That is an order of magnitude higher. That is the SME problem: it does not scale in terms of the fixed cost infrastructure of bringing it in, of having the expertise in there.

In terms of understanding what the issues are and the benefits, as we said, a lot of them are going to be cost reductions for companies who get it right, but it does concern me when I see, for example, a national survey being distributed within AIIA meetings to members to talk about export requirements and so on. There is a lot of very skewed research going on, and it is really scary. The people from the ABS would have a heart attack if they actually saw how these forms got let out to different people to fill out. In the current environment, the last thing you want is bad research, because you are going to make some very bad decisions. I think we have got some bad research. The next thing that happens when you do not have research is that you look for case studies. Case studies have become just too fashionable. It is not the exception that proves the rule, I think: the really important thing is to understand what corporates in general, in total, are thinking and doing out there. Most people should be very wary of case studies.

There are no real infrastructure issues here. With the corporate connectivity thing, we are on par with the rest of the non-US world, and that is the price you pay for being outside the US. No amount of Telstra-bashing is going to change that. Overall, compared with other carriers, Telstra is making a lot of effort out there, and that is reflected in the number of clients they have got within the market, given competitive choices. There are a lot of people still going with them.

It has got to do with enterprises themselves being ready, and Australia is ahead of the crew. All the ingredients are there; there are no real problems. The only question is who is going to take credit for some of the things that were going to happen anyway. I will take some!

Senator CROWLEY—I note in the little booklet summarising things today that we have a quote of evidence, and I think that is from you. It is from www.consult. This is the quote that is given:

I think the responsibility is with the company at all times. I came this morning from some meeting at DFAT—

which is possibly your first serve with the department. You go on to say:

. . . They were talking about the government putting money in for this and that. It is amazing. The government might as well come in and help me do my accounting. The government does not come and help me decide what sort of products to design. The government has absolutely no role in this whatsoever.

This question is to either you, DFAT or DIST: can somebody tell me if they agree with that? Does the government have absolutely no role whatsoever? Should government keep out of business altogether? Or should it be in the business of carrots and sticks? Or should

it be working out what someone called the vision thing, which is some kind of industry plan that talks about the government setting in some sense the pace of change, so as to address the social cost in parallel with the business costs?

I say that by way of asking you for another comment. One of you—and I think it was Mr Todd—actually talked about the excitement of the closure of banks as everybody moves to automatic telling machines. I guess you have not been in rural Australia, where banks have closed at recent times, where in fact that is turning out to be an absolute bleeding disaster, where the money of the people who worked in the banks has gone. You have got a reverse multiplier effect of a big depression on rural and regional Australia. I want to know this: do you think that those questions should be part of the factoring in of the costs of all this advancement? First of all, some people suggest government should be there: should it be there, or what in fact do you think governments should be doing there?

CHAIR—Could I suggest, by way of intervention, that answers need to be clear and succinct. We are out of time for this session.

Mr ADAMS—During the coffee break, I talked to Mr Marzbani about that quote and he said that it was a misquote. I do not think the Department of Foreign Affairs and Trade would ever suggest that government should spend large sums of money on Internet commerce. What we think is that the government should be involved in providing an enabling environment. So let us get the legal infrastructure right, let us get the physical infrastructure right, let us get the training and let us get the trade policies in place. But then it is really up to the private sector.

Mr STEWART—I think the answer to Senator Crowley's question, in part, and the response to that quote or misquote, was in chapter 8 of the Prime Minister's statement of December on investing for growth where the government put forward its vision and a range of strategies to address some of those questions, and how to get people on line. Succinctly, I would have probably four points. One is awareness, one is confidence, one is probably price and one is probably the government putting its money where its mouth is. The government is addressing each of those things.

In the awareness area, there are a number of awareness programs running. One is directed particularly at business through DIST and one is from the national office looking at the broader community. Through the confidence angle, the government is developing a strategy for the regulatory and legal environment, and that is the topic of the next session.

Price is an important element and the government, through its pro-competitive telecommunications reforms, is looking to try and lower the price as best we can. Through some initiatives announced as part of the Prime Minister's statement, the government is trying to put its money where its mouth is in terms of using these technologies itself.

I think there is a role for government. It certainly is not in the form of holding

people's hands, but there is a role in terms of considering the environment, broadly making people aware and putting its money where its mouth is.

Mr STOLAREK—It is probably worth touching on the role of tax very briefly, in the context of the US. The Internet environment, particularly in the context of SMEs, is a business that initially started off being characterised by sheer animal aggression on the part of the people who are active and interested in creating businesses from a minimal base.

In the US environment there are a number features of the tax regime but, very briefly, if one was to sell a business—if one was to create an Amazon.com in the US and sell it to Bill Gates—the capital gains tax payable, if one is an individual, is currently limited to 20 per cent. If I was to sell an Amazon.com or the Alice Springs business to Bill Gates or to Oracle or to some larger organisation for the sake of the vigour generated there and I was to reinvest that money in some other business, be it an Internet business or some other business, half of that capital gains tax would be deferred.

Additionally, in the US environment, if I am a larger corporate that perhaps is moribund or is not full of new ideas, I can buy a smaller business to bring it into my existing operation to bring the energy and vigour in. A corporate acquisition in the US context means that the purchaser is entitled to depreciate or amortise the goodwill over a 14- or 15-year period.

As we know, tax is a second order issue here but one of the factors that encourages the velocity of business sales in the US is that it is easier for the vendor to capture more of the money and to reinvest the money because of the design of the tax system. Correspondingly, from the purchaser's perspective, there is a regime that encourages one to go out and buy businesses. One of the features of the Internet environment in the US—and I noted Ramin's points earlier that other factors are not radically different—is the number of small entrepreneurs who can develop a concept and then sell it and start the next business and the next business and the next business with a view to building, reinvesting and so on. I think that issue of velocity is important because the truth is that there is a small, finite number of entrepreneurs in the Internet business and it is desirable to encourage them to create multiple business activities.

CHAIR—Anybody else, briefly?

Mr TODD—My understanding from earlier comments on this issue is that, because the Internet started in the US, because the US is so much bigger than everywhere else, you cannot compare apples with apples.

Mr STOLAREK—There are obviously commercial issues, yes.

Mr KILLALY—I think there are some tax issues there too. To do a proper

comparison you would want to look at effective tax rates on capital gains. There is a lot of grandfathering of capital gains, pre-1985 gains, there is indexation in Australia, there is now the rollover relief for small business. I think if you are going to trot that out as an issue—

Mr GRIFFIN—I think we should wait for the government to come out with something on tax reform and have a laugh then.

Mr McKENNA—I do not think we have done too badly as a country in the development of this whole area. I think education is probably the biggest single problem we have got. We have got good awareness, but I think it is education that is holding people back—a real understanding of what the Internet can do and will do. The only other point is that I would say that if we ever want to catch up with the US we cannot suffer infrastructure that is inferior to theirs. That is probably an area where government can do something.

Mr MARZBANI—I am sure the quote in that document is correct.

CHAIR—So am I.

Mr MARZBANI—The line outside was basically a one-liner saying, ‘I’m sure the government won’t be wasting their money,’ or words to that effect. The key issue, whether it is speed or whatever, is education. Right now we are in extremely good shape overall. I guess that is the bottom line of where we are at. Governments may or may not be able to do some things out of the four points. Actually getting the government on line in a cost-effective manner will be huge. That will have flow-on effects. That will be great. So the government has to participate.

Vision, and so on—maybe. I am sure there are lots of Australians that look to the government for vision, but there are also a lot of Australians that look to other enterprises and other players in the market for vision and leadership as well. I think it is something that has to be shared between players out there.

CHAIR—Righto, we will wrap this up. I will make a final comment on the issue we are going to discuss next. Many players that have appeared before the committee or given us submissions believe that the next issue also impacts on the development of on-line commerce by Australian SMEs. We will move on to issue 5—consumer protection and privacy.

Consumer protection and privacy issues influence a range of matters considered in the inquiry. For Internet commerce to grow, consumers must have a sufficient level of confidence about payment and security systems, as well as knowing that privacy standards are adequate. These are threshold requirements for the successful growth and conduct of Internet commerce.

Some of the issues for discussion include: security, privacy and other matters that may affect consumer confidence; payment and encryption systems; competing needs; privacy law enforcement; tax administration and other community needs; the role and effectiveness of consumer protection agencies; privacy approaches adopted by the European Union and the US and the implications, if any, for Australia; types of privacy regimes; and self-regulation versus government regulation. A representative from the National Australia Bank will introduce this discussion area.

Mr McLEAN—We certainly have some august members of the consumers group present. I want to stress, as others have said, that Internet commerce is simply a subset of electronic commerce. It is just a mechanism for a two-way communication channel. The major difference is that it is truly global and hence is characterised by open industry standards.

Given that there is concern about security, and that has been expressed often today—I really do not know whether there is a differentiation between security and privacy—the debate over consumer protection and privacy is really about what needs to be done, how should it be done, and when should it be done.

I believe this debate, in reality, has been about whether and what should be regulated and how it should be regulated. In this context, there have been discussions about legislation versus self-regulation, the intensity of that regulation and the costs and benefits.

The difficulties that we have seen today can be summarised by saying, firstly, that more needs to be done to develop a whole of government approach to electronic commerce, which includes Internet. Secondly, there seems to be limited understanding that Australia is operating in a global marketplace and that to be competitive we must adopt efficient practices in setting globally consistent standards and public policies. Thirdly, the costs of regulation, whether they be direct costs or opportunities foregone, are not necessarily being given sufficient recognition under this scenario. Unless this is done, Australia risks not only becoming uncompetitive but losing activities currently residing in Australia such as global headquarters.

Finally, our federal system leads to inconsistencies in regulation throughout Australia, as well as internationally. In this context, just to give a couple of anecdotes, you will remember the commercial debacle arising from the different state railway gauges, and it took over 50 years to standardise that. We have problems with the credit code and with FID and debits tax, all of which are state issues. We believe that these issues serve as barriers to not only the use of electronic commerce on the Internet, but also to competitors.

The National Australia Bank is a large Australian company and we provide a wide range of financial products and services, but we are also a global provider with

subsidiaries and activities in many parts of the world. That having been said, we see that there are three issues that need to be considered today. One is certification, or authentication, under the Internet heading. This refers to the processes for setting and governing standards for access to the Internet. The second issue is the carriage or encryption where there may be appropriate safeguards to protect information from illegal or unauthorised use. Thirdly, there is privacy, which refers to the way personal information is stored and used.

My colleague, Michael Coomer, is head of the NAB's information technology worldwide. He is far more erudite than I am on the first two issues of certification and carriage. However, I want to make some comments about privacy. The NAB's express concern has been for regulation over self-regulation, but that is an on-balance issue. We have a concern that self-regulation may not result in outcomes that consumers and global trading partners are satisfied with. At the same time, we have some very substantial concerns about the activities of state governments in introducing inconsistent, restrictive, costly and internationally uncompetitive privacy legislation.

Consequently, we have come down on the side that we believe that Commonwealth legislation might overcome these concerns. However, before people jump up and down and say that the NAB is for legislation, let me qualify that by saying that our support for whether it is self-regulation or legislation is strongly predicated on the nature and content of any privacy principles which may be put into place.

In this context, while through the ABA we have been cooperating with the Privacy Commissioner in the development of a self-regulatory regime, we cannot support the draft principles as they currently stand. We do not have time to debate that; we have only an hour, or less now—and planes might just run to time today. So it is not possible to debate the issues in detail. However, the Privacy Commissioner—whom I commend, whose job I really do not envy and who also has a sex problem; I will clarify that, in that she is sex commissioner as well—

Ms SCOLLAY—I am acting Sex Discrimination Commissioner as well, Mr Chairman.

CHAIR—Thank you for saying that!

Mr McLEAN—has given the opportunity for further discussion. We just hope that discussion will be comprehensive and that any outcome will not be too quick and will still allow further debate and changes to the draft. That having been said, I will just ask Mike to talk about what we consider to be extremely important issues about certification or authentication and carriage.

Mr COOMER—My role is global; I make no apologies for that. I am required by the corporation to extend its investments in information technology along global lines and

hence my comments today will be, in principle, global. But I will try and put some Australian content around that and explain some of the reasons why we have made the recommendations that we have in this forum and in some other forums in previous months.

The NAB is global and it is operating in the US, the UK, Ireland, Asia, New Zealand and so on. E-commerce is different from I-banking, or Internet banking. In support of some of the points that Mr Marzbani has made today, we do not believe the Internet has just arrived. It has been with us for many, many years. It has just started to get some focus in certain areas, but certainly those who have grown up in the US would know that it has been a part of the academic environment for many, many years, and that through many, many entrepreneurs—probably without the help of Bill Gates and IBM and a number of others—it has developed to where it has. Government has been very supportive in the US, I might add, and the working relationship of Silicon Valley or Palo Alto and Boston and so on with the government has been what I would call very, very

close.

The NAB has been facilitating e-commerce for many years in the form of EFTPOS, ATMs, telephone banking and the emergence of kiosks in recent time. The Internet offers us significant opportunities to advance global objectives and yet parallels, in my view, many of the investments that we have made in many years in terms of e-commerce, such as ATMs and EFTPOS.

The significant difference for us is that the Internet offers us global relativities as opposed to the creation of an EFTPOS network or a payments network here in Australia, or New Zealand, in isolation from what we might have in the UK. The Internet is clearly global and is one form of e-commerce, where established forms tend to be local and are very proprietary in their nature.

The Internet has also spawned, of late, open standards and jargon that is extremely open, such as Java, applets, HTML and so on. The NAB is involved in many projects across the globe—once again in the US with a number of major banks, in the form of Nations Bank and Bank of America, with the Integriion IBM investment. Indeed, our Australian e-commerce Internet banking capability is being deployed along an Asia-Pacific line and is not Australia specific or New Zealand specific. It is these investments that are teaching us an awful lot about Internet banking as opposed to e-commerce.

Internet banking for us is merely an extension of our current banking franchises. Our branch banking capabilities being extended out on to the Internet is not all that dissimilar to telephone banking capabilities, which I think Mr Walsh alluded to earlier in the day, where we undertake to provide services such as bill pay, bill presentment, funds transfer, balances, et cetera.

As Ian indicated, we have identified e-commerce and Internet capabilities into three areas—authentication, which you have spoken about, encryption and privacy. I guess it is the latter two that are giving us a lot of concern vis-a-vis what is going on in Australia and around the world. We do not see a lot of cohesion and a lot of synergies coming out of the various forums that exist in Australia. Particularly what is giving us concern is the Australia-centric nature of those discussions, when indeed most of those technical innovations are coming out of countries well outside of Australia, such as the US and in Europe.

The investment profile has been touched on today but I would like to make some comments. Like ATM and EFTPOS, emerging technologies such as the Internet and Mondex, for that matter—or smart cards, I beg your pardon—reflect a high risk, long lead time investment return profile. In the National we view it that they must be complementary to our global customer needs. Therefore, local investments equal global investments for us. However, we are endeavouring to implement Internet capability in areas where we have some scale today, such as business to business transactions, so we do not have to wait for that huge wave of opportunity we are being told will come from the consumer areas.

In terms of privacy, we believe that there is an urgent need to ensure that consumers have certainty and confidence that their transactions are secure from fraudulent and unauthorised use. We believe also that personal information should not be available to third persons, and that the linkages between privacy, encryption and security are therefore profound and must be managed in conjunction with each other. Personal details must be stored and used by the organisation in a manner which protects individual privacy.

On a global basis, we need to be able to transfer information and data between related entities within the same organisation, including across borders. For example, we are moving to a more efficient platform between New Zealand and Australia, where telephone banking capabilities, data processing capabilities, and card payment and EFTPOS capabilities will be shared on the same network. We need to be able to centralise that information in order to be able to achieve the economies of scope and scale that technologies offer organisations such as ours today.

The absence of privacy principles which apply broadly in the private sector restricts, we believe, the significant gains to be made from this model. Australia requires a set of privacy principles which also embrace security and which apply nationally, and which we believe should be consistent internationally.

We see New Zealand, Singapore and Hong Kong establishing privacy principles which are substantially different, and the void that we see here in Australia contrasts significantly, while the EC is moving towards a set of privacy principles which apply throughout the community—including in the UK, where we have substantial assets.

Legislation tends to be more public and highly visible overseas. Self-regulation, in our view, can lead to regulatory variation for various interest groups. That may not take into account the commercial realities and the way in which technology is altering business and personal relationships. Thank you, Chairman.

CHAIR—Thank you very much for that. One issue that has been expressed to the committee frequently is the issue of security. I am glad you finally brought up that word. When I have been telling friends and acquaintances about this inquiry and about buying my shirt on the Internet three or four weeks ago, almost universally people have looked at me with absolute horror and said, ‘You don’t mean you actually quoted your credit card number on the Internet?’

In fact, I did, because you go through the supermarket and you can pick what you like and put it in your shopping basket, take the shopping basket and go to the checkout. There are three stages of checkout. When I hit the point where I put down the credit card, it came back in something like half a second and said, ‘No, no, not valid. Try again.’ So I went back and found I had made a one digit error in the credit card and corrected it. It took all of two seconds to verify the credit card, come back and say, ‘Your order has been entered, it is being processed and it will be shipped within 24 hours.’

My friends and acquaintances looked at me with horror that I would put my credit card out there into cyberspace, yet they will go down to the hole in the wall and stick their card in and take cash out and be quite happy about that, use EFTPOS, use their credit card for dinners and for luncheons and for buying things at Coles Myer and all over the place.

How are we going to deal with this? It seems to me, and I think it seems to the committee—if somebody thinks I am wrong, tell me—that the security that your credit card is not going to disappear somewhere seems to be one issue that is really holding back Australians from buying on the web. Once they start buying, more than just the antiquarian book sellers and Mick’s Whips are going to get involved in selling because there is a market. Has anybody got any answers?

Mr McLEAN—It is no different from using your credit card to pay for your theatre tickets over the telephone? What is the difference? It is a perception issue.

CHAIR—How many people use it to pay for things over the telephone?

Mr McLEAN—Many.

CHAIR—Do they? Then how do we convince Australians that their credit card transactions are secure? What needs to be done?

Mr ASHER—Ensuring for a start that there are remedies when things go wrong. I

think that they are already in place. That is one answer. There are quite a few that people are experimenting with—the various certification schemes and things.

When consumers 20 years ago first started to use the services of direct sellers, these same issues arose of privacy, what would happen if I responded to a mail order organisation that only had a post office address and all that. Our state and federal consumer protection agencies struggled with those things for years and years, but eventually mixtures of some regulation and rather clever systems of co-regulation developed that led to consumers having a high level of confidence in those things. It is about consumers knowing that, if something goes wrong with the transaction, they are likely to have somewhere to complain to, an ability to get their money back if they have lost it and for it to be in some system.

Of course, for transactions in Australia that is pretty easy. But, increasingly, where the transactions are global, we need to have slightly different protocols—international co-regulatory agreements, cooperation arrangements between consumer law enforcement agencies and the like. But that is all happening too.

Mr McLEAN—I think there are already remedies available under common law for the fraudulent use of information, including credit card numbers. I am not sure what—

Mrs CROSIO—Are they in place in Australia or globally?

Mr McLEAN—For Australia; we are still talking about Australia. Once it is outside of Australia we have a problem.

CHAIR—There is no such thing as Australia in the context.

Mrs CROSIO—We are talking about the problem of security.

CHAIR—I did, with respect, mention cyberspace.

Mrs CROSIO—Cyberspace is now in Australia.

Ms SCOLLAY—I may be revealing my technological ignorance here, but I was under the impression that a credit card transaction on the Internet was less secure than a credit card transaction on a telephone. If it is an unencrypted transaction, it is much easier for a hacker to find a 16-digit number and use it than it is through the telephone line, given at least the laws that we have around interception. Am I incorrect there?

CHAIR—Yes.

Ms BUN—I think Moira is correct to point out that certainly technology does play a role, and the critical thing she mentioned was encryption. If it is unencrypted, of course,

it is a lot less secure.

The other dimension to the problem, of course, is that the process of managing information and payments is not just a technical component. There is someone on the phone when you call in to buy your ticket to the movie and that person may or may not do the right thing. In fact, I often mention that, even at the Australian Consumers Association from time to time, our own subscribers fax in their renewal forms. Obviously there is not someone there every second to pick up that renewal form with the credit card details and personal information, so all systems rely on personal interaction.

I want to reflect more broadly on the question of confidence that Alan Asher raised before. Confidence is certainly a measure of secure technology; more fundamentally, though, it is a question of trust and what it takes to build up trust. Of course, we are observing what consumers in the US have to say about concerns on the Internet. Security, interestingly, is slightly less of a concern these days.

I would like to reflect on the number one concern, and I think it goes back to Ian McLean's comments about confidence and its relationship to the use of personal information as distinct from the security of that information. We were recently at an international consumer congress where a commissioner from the federal Trade Commission gave a presentation. He said that the number one consumer protection issue of the 1990s is privacy on the Internet. Consumers are very concerned about how their personal information will be used. Consumers may not understand what information is gathered about them and how it will be used. Of course, children are a pretty critical concern in this respect.

Beyond that, they have quantified the barriers to non-users. In other words, American consumers are being asked, 'Why don't you go on the Internet?' I would have thought cost would be a pretty fundamental issue, and certainly in the Australian context we reckon it is, but when compared with complication of use, control over marketing messages and cost, privacy came out as number one in that survey. I think it stands to reason that even in a marketplace that is more advanced, even in a marketplace that does not necessarily have the scale of cross-border concerns that we have—because, of course, they are buying from American companies and therefore their rights are respected—nonetheless, we still have this critical concern. I will leave it at that for now, but I reiterate the importance of confidence.

CHAIR—Okay. That begs a question. Can you, Moira or Ramin, answer the question: what is the number one concern of Australians? It is of interest to us what the Yanks are concerned about, but what we are concerned about here is what, if any, things are holding Australians back from advancing use of this modern technology. Do we know?

Mr MARZBANI—From about 10,371 clean responses in November last year, the answer came back that about 22 per cent said the response time is their biggest concern.

About 21 per cent said access cost. Then security came in. Security of financial transactions came in at 17 per cent. Privacy came in at about 13 per cent. 'No concerns' came in at nine per cent. Value for money, junk e-mail, indecent material, upgrade costs and 'other' are smaller than that in terms of total numbers.

CHAIR—I have to say that I think the committee has been operating under the impression that security is the number one issue in Australia—that privacy is a concern, but it came behind it. Thank you for that information.

Mr MARZBANI—That is for consumers. For businesses, security is obviously the number one concern.

CHAIR—They are both the same.

Mrs CROSIO—Mr Chairman, why do you find a difference between business and the general public?

CHAIR—But there is not.

Mrs CROSIO—Yes, you said there is.

CHAIR—Security is number one.

Mr MARZBANI—What we are saying is that security is number one, but for consumers it is response times and access cost, and then security is very close. A consumer, at the end of the day, is much less likely, except for a few viruses and other things like that, to lose a lot. Their confidence level is a lot higher. If something goes wrong with my credit card, I am sure the bank will step in: even if the bank is not legally liable to do so, I am sure something will happen.

But going back to the earlier question—'Is the telephone safer than the Internet?'—I think the answer is six of one and half-a-dozen of the other. The risks are more associated with what the merchant does with the data after they have bought it. If they take that data, put it into their computer and their computer is not secure, the risks are very high then. But the risk of someone intercepting those 16 numbers as they go from your modem through the Internet to some merchant site is still very low. It is there, but it is very low. If I wanted to do that I would find it easier to tap your phone, I think.

CHAIR—How much risk is there, or at least what do consumers tell you about risk, about giving your credit card to a waitress at a restaurant and the waitress jotting down the numbers and using them inappropriately?

Mr NAGLE—In relation to booksellers, maybe we are dealing with a very honest proportion of the population but people just give us their credit card number, just as you

do when you are buying a shirt or whatever. If you want those 16-digit numbers, you probably just go down to the people who are at Revolve at the local tip—they have thousands of those numbers, but they are absolutely useless unless they have got the goodwill of the person who owns the credit card, because you can tell the bank not to pay out that particular purchase. The consumer in the end has the final veto on whether the vendor gets paid or not. There is a lot of trust there on behalf of the vendor.

Within the Antiquarian Booksellers Association there is absolutely no evidence whatsoever of security risks. People are very willing to give over their numbers in one or two e-mails, and once they give it over you have got it for the next 20 years. Security has been beaten up, maybe by somebody who wants to sell secure transaction systems. But, besides that, it is already built into credit card systems.

Mr ASHER—That would be the case without a code that deals with liability issues.

Mr NAGLE—Isn't that already in place?

CHAIR—Could I get you to clarify that? My understanding, when your representative appeared before us in Sydney, was that none of you handles the credit card transactions on-line—that is, they do not go through a set procedure so that they are automatically verified on-line and you then ship the goods immediately.

Mr NAGLE—Most of the members of the Antiquarian Booksellers Association already have the person's credit card number. They get an e-mail saying, 'I would like to purchase such and such a book.' They are told what the full cost is. Their credit card is debited with that amount. Subsequently, if they say they never got the book or whatever, basically they can veto the payment to the vendor.

CHAIR—Can I ask the Bankers Association: if the web site I was on came back to me within two seconds and authorised the transaction—the whole transaction: delivery, address, the lot—would that indicate to you that there was a set procedure involved so that there was automatic checking of the credit card number and the details as authorisation?

Mr ROBINS—The set procedure almost certainly was not in your transaction, because you have not got the necessary card on this end to initiate a set transaction. What you would find was that you had a system at the other end, at the merchant's end, which was linked into an authorisation which would have verified that you had available funds in your credit card account.

CHAIR—Thank you for that.

Mr FORD—The question of security is being discussed internationally, within the OECD and within APEC, both at the government level and at industry level. It is not seen

as purely a government problem or an industry problem but something that both areas have to address. The comparison with giving your credit card number over the telephone, I am told, is a valid one; the risk is broadly similar. It is not through interception at the moment of transmission. It is the problem, as Mr Marzbani mentioned, of what happens afterwards in terms of storage and access to that sort of data.

The other thing is that industry, at least in the United States, is looking at ways of assuring customers, consumers, that there is a limit to their liability—such as a \$50 limit on your credit card if you have not acted negligently and so on—and that seems to be having some effect in terms of building confidence.

Mr NOONAN—The reaction of your friends to your use of your credit card number over the Internet reflects the fact that consumers to a large extent regard this as something of a wild west, an unexplored area. The question for the committee should be: how can Australia establish a competitive advantage over Internet providers in other countries in that context? It must be that Australia should be taking steps to secure the confidence of consumers all over the world that when they deal with an Australian Internet service provider or content provider they are dealing with somebody reputable.

There are traditionally two ways in which we could do that. We could either go around and make a whole lot of regulation, which is the response we have taken in other areas. For a whole lot of reasons this is simply not a viable approach. The real question is how to promote industry self-regulation and allow it to reach a standard where consumers recognise that this Australian Internet industry has reputable standards and that when they deal with an Australian provider they can be more confident than if they were dealing with a provider from another country.

CHAIR—I understand the NAB has concerns that countries within the European Union and some countries in Asia have expressed some difficulty in secure on-line banking transactions with Australia if we do not have government legislation that meets their basic minimum standard requirements.

Mr COOMER—Yes, that is correct, but I think the issue of privacy is just as big an issue.

CHAIR—That is what I am talking about—privacy.

Mr COOMER—Sorry, I thought you were referring to security.

CHAIR—No, privacy.

Mr COOMER—Privacy—yes, clearly I agree with that.

Mr McLEAN—But we have had an interesting reaction lately. Yesterday, when I

made inquiries, one of the problems we had was with Singapore, which has got fairly restrictive privacy legislation. I understand a senior Singapore minister a week or so ago got up and recognised publicly that the level of regulation in that country was in fact inhibiting that country's ability to compete and as such they are dealing with it very quickly so there is a balance that needs to be reached.

CHAIR—Thank you for that. That does somewhat modify your earlier submission. I appreciate that.

Mr WATERS—Our understanding is that Singapore does not currently have a privacy law. They are considering bringing their law into line with international best practice, but currently there is no privacy law there so that concern must be related to some other form of regulation.

The situation in relation to the European Union initiative—and I should declare an interest here because I have recently been contracted by the European Commission to do some work in this area—is that in October this year all the European member states will have to have brought their domestic laws into line with the European directive. One of the requirements is to include a provision that will potentially restrict the export of personal information to any other country that does not have adequate privacy protection.

There is still a lot of debate taking place about how they will assess adequacy, but it seems clear that it will require not only a set of standards to be in place, but also enforcement mechanisms and remedies. I think this comes back to the issue that, whether it is security or privacy—and there is a lot of confusion in the public's mind between those two—and whether those fears are well founded or not, it is undeniable that there is a level of consumer concern about the absence of both standards and remedies in this area. Consumer confidence will build business confidence and certainty in businesses willing to invest. That will only come about if they can be satisfied that consumers are going to take up their services. We do need a comprehensive framework of privacy protection in Australia, not only to offer protection but also for these trade reasons, because it seems very unlikely that, on any assessment of Australia's current laws, the European Union would judge us to be adequate in terms of their directive.

CHAIR—Let me ask you this then: that being the case, are they likely to tell the United States they will not trade with the Yanks?

Mr WATERS—Yes.

CHAIR—Really!

Mr WATERS—Yes.

CHAIR—But I would have thought that would have been to their detriment.

Mr WATERS—There is a major argument taking place between the United States and Europe, but it seems likely it will be difficult for the American government and American business to satisfy the Europeans such that they will simply declare the United States to be okay territory for data transfers. It means they will have to default to the next option which is negotiating individual agreements or contracts. There may be some sectors within the United States that are judged to have adequate protection, but certainly not across the board. That is going to be an additional cost and an additional reason why business will not have confidence to invest in electronic commerce.

Mr KILLALY—I think that the European situation is a pretty good model of what we are really facing here in the big picture sense. We are having double tax treaty negotiations with some European countries and, for one reason or another, exchange of information is a pivotal point.

What we are finding is that, within the European community itself, because it is a single market, there is no restriction to the mobility of capital within that and no restriction to trade within it. They are saying therefore they have to have full and free exchange of information within that community to enable regulators to do their job properly, subject to fairly strict data protection clauses being inserted in relevant exchange agreements. This is what we are finding with double tax agreements now with the Europeans, especially the Germans. They are pushing for these data protection clauses in their agreements.

Those three things seem to come together: the mobility of capital, and the full and free exchange of data, but making sure that the safeguards are there. That model seems to us to produce a pretty good balance if you have the right regulatory systems in place.

CHAIR—But we do not have a regulatory system.

Mr KILLALY—I think we have a Privacy Act and we have the secrecy provisions in tax legislation and in other legislation. If you look at the framework of all of our laws in that regard, and the common law rights, we have persuaded the Germans that we have sufficient regulation in place.

Ms BUN—I just wanted to revisit the link between concerns today and possible concerns in the future and how we look at these concerns, hoping not to be myopic. It is not at all surprising that cost, functionality and quality are at the top of consumer concerns today. We publish a special magazine called *Consumer Choice*. We have 22,000 subscribers now and have constant interaction with them about their concerns, being active users of the Internet who purchase quite frequently overseas. They fall into a different kind of category than a typical consumer. Nonetheless, if we focus on that front end—about who needs to get on board—clearly questions of access and bandwidth cost, the trade-off between the price of signing up to an Internet and what happens when the page keeps going down and how long it takes for it to come up are pretty central.

Assuming we can cross those hurdles with the post-1997 regime being enforced a bit more actively perhaps, then we can assume purchasing will begin to increase. As purchasing increases, then the value of an active Internet purchaser to communities, businesses and associations that want to use their personal information in a way that may not necessarily be fully legitimate or understood—in relation to what the National Australia Bank is considering to be third-party use, that is not understood—will increase. This is inevitable. It is part of the Internet language that is outside. As that happens, then privacy concerns will clearly rise to the fore.

Now what happens if we do one of two things and embark on a fragmented approach at a state or sectoral level on the one hand, or fail to address the problem until its cost begins to emerge and we start seeing consumers losing their trust, losing their confidence, as spam and junk mail and so forth begin to increase on the Internet? We would be absolutely opposed to a traditional black letter law approach. We agree that this has to be flexible. We agree that it has to be done at the level of principles and those principles must be negotiated in a way that is reasonably applicable. We think that the kind of administrative requirements that have previously been discussed are not necessarily required to make this work. We think fundamentally of strong, confident institutions, like a Privacy Commissioner, for basic rights, so that people understand that, if something goes wrong, this is how I enforce my rights.

The kind of activity that is happening at the ACCC now in developing mutual agreements on reciprocal enforcement rights is absolutely critical. The US alternative of limiting \$50 purchasing on the Internet, when Microsoft's car purchasing site is one of the biggest sites, is not going to work ultimately, especially for doing it across borders. We would argue that we must have a longer term view about the likely consequences of developing Internet commerce at a more sophisticated level and we must have a framework that both is coherent and also flexible.

CHAIR—How do we stop the states from instituting the fragmented approach that you decry?

Ms BUN—I think that ultimately the US will have to respond to global concerns—

CHAIR—No, you misunderstand—

Ms BUN—Oh, sorry. I think there is one way of doing that.

CHAIR—We have six of them.

Ms BUN—Yes.

CHAIR—And two territories.

Ms BUN—I think there is one way of doing that, and that is for the Commonwealth government to take leadership. I think it comes down to that, because what is the disincentive for New South Wales wishing to compete against Victoria in attracting businesses that want confidence and trust in developing headquarters and so forth? What is the disincentive? The incentive, if states begin one on one to develop an approach, is to follow and differentiate much worse.

CHAIR—Does the Attorney-General's Department have a comment on that?

Ms LEIGH—I would like to make some comments on a few of the issues that have come up so far in this discussion, if I may. First of all, on the issue of consumer confidence, I would just like to note that the government is addressing that issue. It is addressing that issue by making the Privacy Commissioner available to assist businesses to develop voluntary codes of conduct, and that is the process that Moira is involved in at the moment.

Secondly, the issue was raised of globally consistent standards. I think Michael Coomer from National Australia Bank said that New Zealand and Hong Kong had introduced legislation which had quite substantially different standards. I would just like to take issue with that. The Hong Kong legislation and the New Zealand legislation—like the Australian legislation, like the work that the Privacy Commissioner is currently doing and like the national legislation in a number of countries and various international arrangements—all reflect the OECD principles on privacy that were adopted in 1980. You see the same essential issues dealt with in essentially the same way in all those places, so I think there is a globally consistent approach developing.

Mr COOMER—I said 'have already privacy protection in place'. I did not imply at all that they had legislation or regulations in place.

Ms LEIGH—In fact, Hong Kong and New Zealand do have legislation in place.

Mr COOMER—That is fine. But I did not say that.

Ms LEIGH—Okay.

CHAIR—I have got to stop this byplay or we do not have a formal hearing. I assume everybody wants protection.

Ms LEIGH—Mr Chair, I was just trying to make clear, in case there was any understanding in the room, that there was a problem that standards were being developed that were inconsistent, but I do not think that is an issue.

The third point is a related point of the European Union directive. The government is having discussions with the European Commission about what will be required to treat

Australia as having adequate privacy protection, which is the term used in the directive. I think it may well be the case that the European Commission will be looking for enforcement mechanisms, but I think it still may well be the case that we will not need to have legislation in place, that enforcement mechanisms might be provided through a self-regulatory code which has real enforcement mechanisms. So I think there are a number of issues there that we need to distinguish.

Fourthly, on the question that has just been raised of state governments, the Prime Minister at a COAG meeting early last year raised this issue with all of the premiers and asked them not to legislate on privacy, precisely to avoid a fragmented approach, and announced at that time that the Privacy Commissioner would be available to assist business and suggested that that was the way to achieve a nationally consistent standard. The Attorney-General has also made the same point in Standing Committee of Attorneys-General meetings.

CHAIR—Is it not true, as I think we have read in the press recently, that Victoria intends to legislate?

Ms LEIGH—There have been statements to that effect, Mr Chairman. I cannot speak on behalf of Victoria.

Mrs CROSIO—More important, as a general comment, can we stop Victoria if they choose to legislate?

Mr McLEAN—Only if the Commonwealth gives leadership.

Mrs CROSIO—How is the Commonwealth going to give leadership for self-regulation and not legislation?

CHAIR—Perhaps the Privacy Commissioner might like to so inform us.

Ms SCOLLAY—It might be useful if I start out making you aware of where I am trying to go with this process. The NAB suggested that I have been negotiating around a set of principles, and that is certainly right. I held consultations around Australia in October and November concerning a document that I had issued in August. The document that I issued in August that you probably have available to you—and I can certainly get you one if you have not—in the light of the Prime Minister's announcement for self-regulation, tried to spell out what a self-regulatory approach with teeth would look like. In that document we had an eye to the EU directive and the kind of requirements that the European Union was in fact spelling out.

The EU wanted, and I also wanted, a scheme which would have principles which, as Kathy has said, would be based on the OECD guidelines. It would have some form of monitoring sign on process so that companies or industries could sign on to those

principles, and then there would be monitoring against adherence to those principles. There must be dispute resolution and complaint handling within that, and also an independent body which would be funded by industry.

In relation to the United States, my understanding is that it believes that it can also comply with all of those requirements, except for an independent body. That certainly seems to be the issue which is outstanding with the United States, but the United States is not talking about a scheme which is just laissez faire; it is talking about a self-regulatory scheme with teeth and with compliance mechanisms, et cetera.

My consultation paper which came out in August has been out for discussion. I have held forums with business and consumer groups in every capital city in every state and territory. At the end of that process it seemed to me that I needed to divide the issues into the principles and then decide whether or not this self-regulatory scheme would be picked up and would work.

The reason why I separated the issues was that there are a lot of organisations looking to get going, whether it is in Victoria, whether it is in the Australian Capital Territory in relation to health, whether it is the telecommunications code, whether it is an Asia-Pacific smart card code, or whether it is the Online Council. There are a whole lot of people saying we need a set of privacy principles, so it seemed to me urgent that we try to have one national set of principles.

At the end of the consultation process in November I decided to separate the processes into two. I took just the principles and said, 'These are based on the OECD guidelines. Nobody has problems with these principles. The Americans do not have problems with these principles. Let's sit down and see if we can draft now a set that is like the OECD guidelines, like what is in the existing Privacy Act, which would be relevant for the private sector, would be in plain English, and would be relevant for the on-line economy.'

Several weeks later, after many negotiations, it is not quite so simple. There is agreement at a very broad level, but there is not agreement at a drafting level. Despite that, my intention is to try to issue this set of principles, probably before the end of February, so that there is guidance out there for one national set of principles irrespective of who it is who needs them so that we will not create a patchwork, which is absolutely what everybody has said nobody wants.

Then the issue becomes 'What about self-regulation versus legislation?' There has certainly been comment on the range of issues to do with self-regulation versus legislation right throughout those forums. That is, in fact, the second phase of the project that I am running. The first phase was to try to issue the principles to create a national set of principles for national consistency.

CHAIR—Do you know what stage Victoria is at?

Ms SCOLLAY—As far as my understanding of where Victoria is is concerned, I do not want to speak too much for Victoria—they need to be asked. I will explain my understanding of where we are going, at least with the principles. Alan Stockdale is the Minister for Multimedia in Victoria. Online Council is a part of Multimedia. Online Council made a statement on 12 September last year that it wanted to work for one national set of privacy principles and wanted to work with the Privacy Commissioner through that process.

Throughout my process of negotiating this set of national principles, I have had people from Online Council from Victoria and Western Australia involved in the development of the principles. My understanding is that Victoria would then pick up those principles, which would be national principles, and would look to legislate those for Victoria. I think they are certainly anxious to cover both the private and the public sectors in Victoria. There has never been an issue about individual states legislating for their own state government sectors, just as we already have the Privacy Act for the federal government sector.

As an aside, I need to elaborate on what Mr Killaly said earlier about the fact that, in the double tax agreement context, there is Privacy Act protection because tax is a federal agency and comes under the Privacy Act. The same does not apply to private businesses operating with the EU. That is an important distinction to be made.

My understanding is that Victoria will legislate for the private sector and the public sector, if for no other reason than that in Victoria the outsourcing of government services has been so holistic that it is very difficult for the Victorians to distinguish between the private sector and the public sector.

CHAIR—We have run out of time. Does anyone else have any comment to make on this issue?

Mr STEWART—I want to put in a bit of a plug for one of the three elements that the NAB raised in their initial presentation and which has been a bit overlooked, I think. We had a lot of discussion on privacy. I do agree that security is partly a bit of a beat-up and that there are readily available solutions to that problem. The third string in NAB's bow is authentication, which has already been featured in this discussion. That is a bit disappointing from my perspective.

I do not want to waste valuable time prattling on about the things that the Commonwealth has got going, but the Attorney has got a process looking at the legal elements, Senator Alston has got a process looking at the industry's health regulation elements and Standards Australia has got a process looking at global technical standards. It seems to me that if you are looking to business to spark this uptake of commerce, our

businesses are fundamentally worried about the enforceability of whatever transactions they take over the Internet because they are wearing the cost of credit card transactions without signed dockets or the swipe card record. Authentication is a fundamental issue for the uptake. People need to be certain who they are dealing with—that is an important issue. I have not heard much comment from any of the industry reps around the table about the importance of authentication as something which is really going to spark the uptake of electronic commerce. That surprises me a bit. I know privacy is very topical, but I think this is a real grassroots issue which we have to work together to solve.

Mr MARZBANI—I think that is a theoretical issue which from an academic point of view is obvious. But in terms of actual application on the road, it is not that big a deal for businesses today: they will continue using their proprietary EDI systems which do have their own authentication procedures. The motor manufacturing and airline companies are not going to decide tomorrow they are going to use the open Internet for everything. There will be transitions. I do not think that the timing of some of the authentication issues is terribly critical today. There is going to be a lot of competition between different technologies for the NAB's business, the ANZ's business, Westpac's business, the Commonwealth Bank's business and Wells Fargo's business. If the government tries to jump the gun too quickly that may in fact leave us with a Betacam VHS solution. That is always possible.

Mr WARD—The Internet Industry Association code of practice has strong emphasis on the secrecy and privacy obligations which apply to all code subscribers. This includes refraining from the distribution of business records or personal details relating to users; not selling or exchanging those records or personal details of users to other code subscribers or anyone else unless it is part of a sale of the business as a whole; and refraining from intentionally examining or tampering with the user's private content without express permission of the user. It is an issue which the Internet industry is very conscious of. I think to date it has shown itself to be very respectful of the privacy of its users and the contents of their Internet communications.

On Brian's question, the real issue for encouraging the use of wide-scale Internet commerce through the Internet is a question of not just authentication of individual users but also their identification. As many of you would know, there are many mechanisms by which you can be a transparent user of the Internet and have no particular identity. That causes difficulty for whomever the merchant might be who is wearing that liability and also for the bank.

CHAIR—Is it not also true that for the user, for an individual intending to purchase on the Internet—to buy goods or services—it is a great discouragement when a particular web site has a name but there is no indicator of the company, its address or telephone number?

Mr WARD—Yes. We referred to that earlier. We certainly are asking all code

subscribers and all members of the Internet Industry Association of Australia to make it part and parcel of their offerings to people at the first point of contact that it is clear who they are dealing with, how you contact them outside of the web and what their physical location is. But that is going to stop only small-scale, quick operations that are generated in Australia. It is not going to deal with anything overseas, which I think is where the majority of concerns would come from, certainly from the ACCC's point of view.

CHAIR—I understand. Would the Privacy Commissioner have any comment on that? Has the fact that companies will take up web sites and give them a name but no indication of the name of the company, its address or its telephone number been any part of your discussions?

Ms SCOLLAY—It has not really come up in my discussions, because we are concerned only with individual privacy, not with business issues of that kind. Where it is a business web site—that was something that came up in the tax report—that is not of concern to us.

CHAIR—But, if individuals are concerned about their privacy, how do you deal with it in a regulatory sense, whether it is self-regulatory or through government, if you do not know who the hell you are dealing with? It is pretty hard to send a bluey to a mob you do not know of.

Mr WATERS—One of the things about the privacy principles which would be included in any regime, whether it is self-regulatory or statutory, would be a notification principle. That would require anybody dealing with consumers and collecting personal information from them to tell them who they are and provide a point of contact. I do not think there is any disagreement between any of us about that being a fundamental component of any scheme.

Ms SCOLLAY—That is covered in the principles that we are negotiating.

CHAIR—I am pretty new to surfing, but it seems to me that there are an awful lot of web sites without that information. I have not touched a tiny fraction.

Mr MERRICK—We did a survey on that, Mr Chairman. About 15 per cent of the commercial web sites we looked at had no information about the identity of the people behind them.

Mr STOLAREK—I think the issues can be reconciled so there are a number of layers of security and privacy. We talked about the abuse of credit card numbers—the 12 digits, or whatever. We all have had the experience, as I have, of finding tickets to Michael Jackson all over our visa cards and so on. We are able to deal with the unauthorised use of credit cards.

The next layer beyond that, which is what you touched on, is identification. Assume that one gets the goods and they are defective or faulty, the book needs to be returned, or it is not what was offered: that is where the identification of the merchant, or the other party, becomes relevant. That is why we supported, from a tax as well as legal perspective, the identification standards.

In the business sector—perhaps amplifying Ramin’s comments—we are finding that integrity of who the counterpart is in business is, in fact, important. As Ramin said, when businesses have proprietary EDI, Coles Myer dealing with its merchants in a proprietary system, you do not need to worry about identification and security, because you have gone through an extensive identification process.

But in the open Internet environment, security and integrity of commercial transactions is critical. Our firm, for example, like a lot of other providers, has a large security service that is provided in this area. Some of the issues here were touched on by the gentleman from the Internet Industry Association. For example, when you go beyond the abuse of credit card details, which is unavoidable and easily fixed anyway, you can in fact have the ability for people to pry into the hard disk contents, into files. In the business environment, that is why businesses build firewalls around their Internet engines.

There are a number of issues here. Some of them are lesser order concerns, like abuse of credit cards; subject to the measures discussed earlier, the legal infrastructure is in place already for those. But once you get a product and it is defective, then the subsequent problem interchange does require consideration and identification and all of those other issues are relevant.

CHAIR—If consumers think it is a problem, it is a problem.

Mr WARD—There are two issues here. We need to distinguish between what we can and cannot manage in our territory. As part of our responsibilities in industry we are looking to try and introduce a set of codes which are applicable to vendors as well as to subscribers on the Internet, and certainly the conduct of vendors section in our code does require people to make it clear in terms of delivery times, return addresses, and refund or exchange policies. But, realistically, we do need to be aware of the fact that much of what we are going to come into contact with on the Internet is not going to be managed or controlled by any of the actions of the industry or the government. The difficulties you suggest and that the ATO have found in terms of web site identification are only the tip of the iceberg. As more people surf they are going to find more things out there in the sea, and they are not going to be things that we can necessarily manage or catch in our net.

CHAIR—Fair enough.

Ms BUN—I just want to reinforce the importance of having good responsible codes that cover members and subscribers and so forth, while also highlighting the

problem, sometimes, of relying on codes as a mechanism for enforcement. We find often that, for example, coverage is an issue. The Direct Marketing Association, several years ago, desperately wanted a direct marketing code because there were shonky operators right around the periphery. They wanted direct mail catalogues and telemarketing to have high standards and a high reputation. Unfortunately it was not possible, for a range of reasons, to move forward with a mandated code, which was the industry's priority as well as our own. What we have left is the good guys who abide by the system being relatively trustworthy, et cetera, but the overall industry continuing to have reputation problems and so forth.

When it comes to the Internet, this also is an issue. People who actually subscribe to the standards and are part of a self-regulatory family, if you will, can be regulated. However, those who fall outside of that scheme and still operate on the Internet simply cannot. Ultimately, what it means is that although we are quite happy with, for example, the Australian Communications Industry Forum—the telecommunications self-regulatory scheme—that does not work once you move into an area that is so profligate, that has so many different companies and players.

At the risk of having you think I am American—I am actually not; I am Brazilian—I refer to another study recently done in the US. This is an interesting one. This is the government's own agency, the FTC, reporting on research by Alan Weston and Associates which asks the question: what is the public's preference for government approach to Internet privacy issues? There were three categories. The first was to let industry groups develop privacy standards, the second category was that the government recommends privacy standards, and the third was to pass laws. Not surprisingly, 20 per cent thought an industry approach was good, and 68 per cent thought the government should pass laws.

CHAIR—Surprise, surprise.

Mr NOONAN—We generally talked a lot about privacy and security, but consumer confidence has an important third dimension: can I rely on the information that I am getting over the Internet? That goes to identification and whether the information is truthful or misleading. And, most importantly of all, what can I do to assert my rights if I have been deceived? If my only remedy is to go under common law to a US court, then this is probably no remedy at all for me. So industry self-regulation does have an important role in that context.

CHAIR—Thank you. It is now five o'clock; we only have 15 minutes to wrap the whole session up.

Mr ASHER—I just wanted to remind everybody, in case that were needed, that there is a lot of fraud, deception and incompetence in the provision of goods and services on the Internet and that we have to distinguish solutions where industry players are

wanting to work together to minimise that. We need to recognise that, in the case of fraud and deception especially, there is a need for rules that are going to be nationally and internationally enforceable, but that is not an argument against an effective self-regulatory system. In fact, it is an argument for it, so that you minimise the number of problems that are going to fall into the hands of consumer protection agencies and they only have to deal with the ones in that earlier category.

I have to say that one huge omission from the discussion paper on consumer protection is the absence of any discussion of competition. I see that one of the greatest threats to consumer welfare is the risk of individuals exercising market power in different elements of the information technology system.

CHAIR—Thank you.

Mr WATERS—Mr Chairman, I just wanted to briefly reinforce the point that Mara Bun has already made about the weaknesses of relying on a self-regulatory system, because whilst the privacy groups have been participating in the privacy commissioner's process, and we are pleased to assist in the development of the principles, we have absolutely no confidence that it will be possible to put in place a framework of self-regulation that covers all of the players. In the Internet area in particular you have a lot of very small operators who are not members of any trade association. There are going to be maverick operators that will not sign up to any voluntary codes. The only way you are going to get them to comply is to make it mandatory. Without them complying, everybody is going to get dragged down by the lack of confidence.

CHAIR—You cannot make them comply if you do not know who they are.

Mr ROBINS—I would just like to say, since we have got into the debate on whether we are looking for a legislative solution or a self-regulatory solution for privacy, that the ABA has been participating with the privacy commissioner in her work and we support that work. Our preferred option, to put it on the record, is that we would like to see a self-regulatory approach at least given an opportunity to work and see how it turns out.

CHAIR—Thank you for that. It was a good last session. We have about 10 minutes for anyone around the table, or anyone not at the table but who has been sworn and wants to come back to the table, to make comments about any of the issues or the subject overall. From the committee's viewpoint the discussion has been excellent and the opportunity to have interplay between the players has been particularly valuable. We value that and we appreciate your attendance, your cooperation and the fact that you have been here for a long day. I hope that you have learned as much as we have. In fact, you might know more than we do now. That, of course, makes it dangerous! No one wants to add anything? You are happy with where we are? Okay.

On the behalf of the committee, I thank all of the participants today. I thank our secretariat and staff members. I thank *Hansard* and I thank all my colleagues on the JCPAA. We will bring down a report as soon as we can. We expect that this will be the last formal hearing session of the committee. If anyone has promised us information we would like it as soon as possible and in the detail that you have promised it to us.

Resolved (on motion by **Mrs Crosio**):

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication of the evidence given before it at public hearing this day.

Forum adjourned at 5.04 p.m.