



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON ENVIRONMENT AND HERITAGE

**Reference: Public good conservation**

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON ENVIRONMENT AND HERITAGE**  
**Monday, 5 March 2001**

**Members:** Mr Causley (*Chair*), Mr Barresi, Mr Bartlett, Mr Billson, Mr Byrne, Ms Corcoran, Mrs Gallus, Ms Gerick, Mr Jenkins and Mrs Vale

**Members in attendance:** Mr Billson, Mr Byrne, Mr Causley, Ms Corcoran and Mr Jenkins

**Terms of reference for the inquiry:**

For inquiry into and report on:

- the impact on landholders and farmers in Australia of public-good conservation measures imposed by either State or Commonwealth Governments
- policy measures adopted internationally to ensure the cost of public good conservation measures are ameliorated for private landholders;
- appropriate mechanisms to establish private and public-good components of Government environment conservation measures; and
- recommendations, including potential legislative and constitutional means to ensure that costs associated with public-good conservation measures are shared equitably by all members of the community.

**WITNESSES**

<b>DiGIORGIO, Mr Frank, Manager, Environment Policy Unit, Business Income and Industry Policy Division, Department of the Treasury .....</b>	<b>542</b>
<b>EVANS, Mr Edward Alfred, Secretary, Department of the Treasury.....</b>	<b>542</b>
<b>FRANCIS, Mr Geoffrey David, Analyst, Environment Policy Unit, Business Income and Industry Policy Division, Department of the Treasury.....</b>	<b>542</b>



**Committee met at 9.46 a.m.**

**CHAIR**—I declare open this public hearing of the House of Representatives Standing Committee on Environment and Heritage in its inquiry into public good conservation. The committee's inquiry has focused on the costs imposed on land-holders, including taxes, rates and other government charges, and the direct costs of undertaking conservation measures. The committee has also been seeking information about the policies and programs that governments can implement to mitigate these costs and to thereby encourage land-holders to undertake public good conservation measures.

The committee is bringing its program of public hearings for this inquiry to a conclusion. In doing so, today the committee will hear from officers of the Commonwealth Treasury. The committee is aware of reports which indicate that the Treasury has done some work in several areas relevant to this present inquiry, as well as the recently completed inquiry into catchment management. In particular, the work of the Treasury would seem relevant to the evidence the committee has taken in relation to the cost of conservation. I understand that officers of the Treasury are aware of the report of the inquiry into catchment management that I tabled in the House last week. Today's inquiry takes some of these issues further and raises additional ones, including the effect of certain taxation policies and national competition policy. Whilst we intend to hear from the Treasury about matters raised in our current inquiry, we may take the opportunity to get an initial comment from them in response to the catchment management report.

[9.47 a.m.]

**DiGIORGIO, Mr Frank, Manager, Environment Policy Unit, Business Income and Industry Policy Division, Department of the Treasury**

**EVANS, Mr Edward Alfred, Secretary, Department of the Treasury**

**FRANCIS, Mr Geoffrey David, Analyst, Environment Policy Unit, Business Income and Industry Policy Division, Department of the Treasury**

**CHAIR**—Welcome. Although the committee does not require you to give evidence under oath, I should advise you that the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. We do not have a written submission from you, but would you like to make some comments to the committee before we ask you some questions?

**Mr Evans**—Thank you for the opportunity. I will speak only briefly because we would basically like to respond to those issues that are of most concern to you. We have not made a submission to the inquiry because we do not feel that this is an area in which we have particular expertise or that we would be putting views that differed from those parts of the bureaucracy that have more expertise than us. We did not feel that it would be particularly helpful either to you or to us to make a written submission. We have accepted your invitation to appear, recognising that it was sparked partly by some comments that I made at a conference. My comments were reported, as they typically are, in a somewhat garbled fashion, including a reference to our having costed reparations in the Murray Darling Basin at a particular figure.

We have not done any such costings and I did not refer to a figure, but it happens that at around the time that I was speaking there was a costing of that order around in the media. What I was speaking about at that time was simply fiscal policy and a number of issues that might bear on that in the years ahead, and the issue of natural resource management was one of those that could involve a significant fiscal cost. I was speaking about the issues that go to whether or not the costs of managing our natural resources should indeed become a fiscal cost because it is not essential that they do so. That is one solution. That is basically what I was talking about. It may not hurt if I run through a couple of those issues in this particular case at the moment.

The issue you are looking at is one subset, the question of farming and landholding and conservation issues that arise there, all of which I presume runs off the general proposition that use of the land will involve some cost to the quality of the land. Similar issues arise in respect of water and air and most of the principles of addressing these are the same, but you are focusing on land. These are not new issues; they have been around ever since land was farmed or used for any purpose. They have become more significant in recent years because of a heightened public awareness about conservation matters either from a point of view of protecting the environment per se or because of a recognition that damage to the land causes damage to its productivity and its potential use. Whichever way one looks at it, one can make a

case that we need to be doing something about conserving land and that is something, as I say, that is not new but has become more prominent both here and abroad over the last few decades.

That thinking has developed into a stage where one sees references, as we do here in the title of your inquiry, to 'public good conservation'. I do not know just where that term comes from, to be honest, but I will be interested to hear whether there is something that is particularly driving the committee on that issue. The notion of a public good is not new and its extension to use in conservation is not unnatural. It is important to get the concept right at the outset because, when one comes to saying, 'How do we address conservation issues,' we have to be careful not to be driven too heavily by the public good theory because it was developed in the specific context of pure public goods and has extended from there. Public goods are basically those that are produced for the benefit of the general public. They have a second attribute, and that is that typically they cannot be charged for directly. The classic example is defence. It is easy to understand that defence, if you take Australia's case, is produced by government for the benefit of all Australians and there is no obvious way to charge directly for the cost of that. As a pure public good it is funded entirely from the budget—that is, by taxpayers. Governments do not have money, they only have taxpayers' money, so it is funded by taxpayers.

One can move from Defence to a wide range of examples where those two conditions do not apply in full. When one gets to land conservation, it becomes rather blurred. Let us talk about farming rather than land holding; I think there is a distinction. Farmers, it can be fairly said, are the ones who cause the damage to the land. I think that cannot be disputed. But they do not do that for their own good. They do it because they are producing something for consumers. The benefit of what the farmers are doing goes primarily to the consumers, not to the farmers. And we can identify that benefit.

If there is a cost involved in the production beyond, say, the farmers' wages and profit, if there is a conservation cost to maintain the land and to repair it, one could fairly say that that ought to be borne by consumers. There is no need for taxpayers to become involved. That would be a first step because here we have something that does indeed have some public good attributes—the land is a natural resource and belongs ultimately to the public, but its use is for the benefit of consumers.

A starting point as to who should pay for maintaining the quality of the land ought to be consumers. It can become complex, but it is a good starting point to recognise that maintenance of the quality of the land is a cost of production, like any other. It becomes complex when we ask: what do we mean by maintaining the quality of the land? We seem to have a different view on that now than we had a decade ago, or certainly a century or two centuries ago, when little thought would have been given to what damage may have been done to land or the environment by the use of the land for simple matters like farming. Nowadays, society has a different view on that and believes that there is a cost there and that it must be covered. One does not jump too quickly to the conclusion that it must be covered by taxpayers in a case where, quite clearly, the prime benefit of the use of the land is going to consumers.

Those, I imagine, are some of the issues that you would be grappling with. You have no doubt already gone much further than that, and posed questions such as: if governments are to pay—that is, if taxpayers are to pay—who should pay? Again, you could quickly come to some general issues of equity that have nothing to do with the basic subject matter of conservation

issues of equity that have nothing to do with the basic subject matter of conservation that you are dealing with, and that are more in the area where we advise governments.

**CHAIR**—Maybe I should indicate to you that the inquiry arose out of a complaint from farmers that governments were legislating in the name of conservation, but that legislation was impacting upon them economically to the extent that they may not be able to continue. That is basically where it came from. I dare say that the committee has been grappling with this issue of what is duty of care and what is public good conservation. There is no doubt that it is a very complex area. If it comes down to that fact, I am interested in your comment that it is consumers who should pay. I wonder how that would be done.

**Mr Evans**—By the farmers passing on the costs, as they do.

**CHAIR**—They cannot, though, in a deregulated market.

**Mr Evans**—It all depends on what the market is. Economists use terms like elasticity of demand for products in order to examine the extent to which costs can be passed on. For the most part, producers of any goods, whether they are farmers, manufacturers, hairdressers or whatever, do not operate at a loss. They operate to give themselves an economic return, and farmers do likewise. This is really a good textbook case to look at in the sense that, as I mentioned, farmers 100 years ago would not have had these requirements put on them by governments, so they were not passing on those costs.

Today, when governments are putting a requirement on them, perhaps because they believe there is a public good requirement to do so, they are putting costs on farmers and farmers, of course, will attempt to pass that on. Whether they be able to pass it on depends very much on what the product is. If you take a product, for example, like wine, which has a certain elasticity of demand and consumers will accept a certain range of price change without affecting how much they demand, then it is quite possible they can pass it on. If you take a necessity of life, it is quite possible it cannot be passed on. The elasticities I speak of depend upon how competitive the market is. If the farmers are producing for export, as so many of our farmers do, then they will have very little say over the price they can charge and the extent to which they can pass on prices. But, again, one must be very wary of accepting that as an argument that they cannot pass on any costs at all. Clearly they do pass on costs and clearly they change their own practices to improve their productivity so that they can pass on costs that they have no control over. If they get a cost imposed on them, whether that be an environmental cost imposed by a government regulation or a uniform wage award imposed by an arbitration court, their ability to pass that on will be limited by the market. That has been long accepted and has been one reason, for example, why treasuries have argued that arbitration courts have to think carefully about the costs that they impose on markets that are not in a position to pass on prices. Governments, clearly, need to think carefully also about what costs they impose on those markets.

Even in the case of the export markets, if we are talking about something that will have a significant cost, one expects that to be reflected in the exchange rate so that when costs rise, if that is sufficient to affect exports to any significant extent, you could expect the exchange rate to depreciate. What does that mean? It basically means that import prices will go up and consumers will pay through other products for that cost increase. So you could see a cycle where an environmental regulation leads to an increase in cost for farmers, an attempt is made



to pass that on to foreign markets, the exchange rate reacts in response, import prices go up and consumers bear that. Will we ever know whether that is occurring? We will have difficulty measuring it but we can expect that that will indeed be the type of cycle that is occurring.

**CHAIR**—It would be easier for politicians if it could be put into the cost of the consumer price, but it does not seem to happen that way. Farmers in my area, for instance, earn less than those on the dole. They have no funds to implement this government legislation.

**Mr Evans**—With that type of comment you are taking me to an area that is beyond our expertise. Why would farmers continue to farm if they are earning less than the dole?

**CHAIR**—A way of life. I can take it even further. We cannot run away from this particular problem, but I put to you that neither can Treasury. But if in fact farmers do walk away—because, as you say, why would they stay there if they are earning this sort of money—then who pays? The taxpayer will have to pay.

**Mr Evans**—Or consumers.

**CHAIR**—Consumers will not pay; they will get it from overseas.

**Mr Francis**—To the extent that farm production may be reduced, and it also depends on who in the farming community can best meet a newly imposed standard. There will be some farmers that you would expect to be able to meet it fairly easily; there will be some farmers that may face greater difficulties. So there will be an adjustment process.

At the end of the day, if some farmers cannot meet those costs it is likely that they will cease farming. That in turn has an effect on supply to the market, which will bring the cost back to consumers, in any event. The fact that the government or other regulators may be imposing costs on farmers creating an adjustment pressure may require governments to pay adjustment assistance. But, as to who should pay for the new environmental standard, is a separate issue. The adjustment process is really separate from the fact that a new standard is being imposed.

**CHAIR**—I would argue that it is not. Obviously, if there is legislation that the whole community believes is important for the environment, then, yes, there will be adjustments—there is no doubt about that; that is what the committee is grappling with—as to how you fairly compensate someone who might be forced to go out of agriculture and who might be forced to have a completely new farm management structure.

**Mr BILLSON**—On the dynamics of the market, the natural systems health question—in terms of our longer term productive capability—is at the heart of what we are talking about. The chair has highlighted a range of views on where the burden rests and the extent to which the producers carry responsibility for their natural systems health outside the farm gate. It is almost like the legal concept of peaceful enjoyment of your land—sure, farm away, but there are some consequences of what you are doing that actually go outside the farm gate. The discussion here is to what extent we send those back to the farm and say, ‘The impact you’re having on the natural systems might not be immediate to you in your farming enterprise, but it is having consequences down the catchment’—for instance—‘that we would actually like you to take account of.’

The tension is: how far do you go? That is where this public good issue comes in—whether the duty of care of a land-holder is ‘Let’s extend the peaceful enjoyment concept. Sure, farm away but don’t negatively impact on the productive capacity of others.’ That is one school of thought. The chair has alluded to another where, in the past, it has been an unfettered right to employ the resources of the property for profit, and any trimming back of that right is an impost that someone should paid for. That is another world view. These sorts of things are at the heart of it. Then there are other, non-productive related issues such as biodiversity conservation. Public policy says that we value this; there is virtue in maintaining it, and perhaps this property, for whatever reason, happens to have a disproportionate share of it. How do we recognise that they happen to have the golden hen’s egg, whereas the other hen properties do not and we are going to impose a greater impact on that property purely because of what remains on it? And how do we shift the resources around accordingly? That is broadly what the public good thing is about. It goes outside the farm gate as well as inside, and that is part of what we are working at.

The consumer side of it is what interests me, though, in terms of the old days. Clean and green used to attract a premium in the marketplace, whereas now, because we do not use economic jargon and internalise our externalities of natural systems health, we are going to have problems with access to overseas markets. The Europeans are already saying that we have farm subsidies but we indirectly subsidise our farmers by not fully internalising the cost of maintaining the natural systems they rely upon. Has Treasury done any work on identifying where these natural systems management issues will impact on our market opportunities, on what risks there are for our longer-term productive capacity of not dealing with them and on whether, in the biotech world, if we are burning up species of frog, we might lose some opportunities there, as well? I am just painting a broad picture.

**Mr Evans**—Were there issues, I doubt that we would have done any original work on it. Is that right?

**Mr Francis**—That is right.

**Mr Evans**—That is something that is better handled by people who know a lot more about it than we do.

**Mr BILLSON**—Who are those people?

**Mr Evans**—ABARE, for example, have the proper expertise for that, and the environment department and some of its associated agencies as well.

**Mr BILLSON**—I suppose that comment extends to the idea of the duty of care: what is a reasonable expectation to place upon any custodian of a resource in our country? Is that something you have done any work on?

**Mr Evans**—It is basically a political issue.

**Mr BILLSON**—That is our sense of it, too, but we were hoping you would drive some objective insights to help us, because it is proving to be a political issue.

**Mr Evans**—I am not sure that there are any, but I do think that you have to keep in mind a premise that the land is being used for the benefit of consumers and consumers must pay. If consumers are not prepared to pay—that notion is a little foreign to me: that people will stop consuming goods—it is probable that some farmers will be more affected than others, but that is probably because we are farming some land that is not very productive and where the environmental costs are much higher than on other land. So that goes to a technical issue about land use. But do not too readily put aside the opportunity to internalise and to pass on costs to consumers. I think it is a basic starting point. It is only where one can produce a case where that cannot be done that you turn to the public in general—taxpayers, who are really the same people. Consumers and taxpayers are not all that different.

The question of how they pay is important because, if they just pay through tax, that will have no effect in itself upon their behaviour or the behaviour of the people who are actually using the land. It is only when you get economic signals coming back to the land-holders and the farmers that you will get some benefit there and, hence, some efficiency gain out of your measure. If you do it through general taxation it is extraordinarily difficult to get a measure of the real value and you come down to a pure political decision—as you do, for example, with Defence.

**Mr BILLSON**—In terms of an early part of the way forward, ascribing and better articulating the value that is a part of better natural systems management—both to those exercising judgments about land management practices and through to the consumer—and how this matters and needs to be part of your economic choices, would you see that as a central step, if we could get away from what is otherwise a pure political judgment?

**Mr Evans**—Yes. I would think that one outcome that you would be looking for as a guide as to how effective the systems ought to be is that farmers per se are not a group that is significantly affected by these measures. They are no more affected than the producers of the final goods, and the costs should not be resting with them unless it is in the pure duty of care area.

**Mr BILLSON**—Would you suggest there is a bit of a market failure in the eyes of consumers? I accept in large measure what Mr Causley says: there are significant sections of our primary industry community that would have difficulty passing any new cost on. I wonder whether that is because we have not quite persuaded the consumers yet that this stuff matters and that there is a relationship between the agricultural production they consume and the condition of our natural systems generally.

**Mr Evans**—I would expect that is part of it. It may also be that we have not tried very hard.

**Mr BILLSON**—I tend to agree with you there. I am just drawing out the point, hopefully. The other thing that I was interested in hearing your comments on was biodiversity conservation, for example—and it is not easy to apply some of the economic thinking to this—or even world heritage areas where in the hinterland we have cane production going on that washes silt and nutrient value into coral reef areas.

For the person making the choices about how to farm their sugar, asking them to widen their buffer zone beyond what the buffer zone would be up the coast where there is not an adjoining world heritage area, they would see as an additional ask. I accept that. It is a reasonable point:

we are asking more of that category of farmer adjoining a world heritage area than we are of a farmer adjoining a regular patch of dirt. Does that start to sound a little bit like a public good conservation outcome that we may need to recognise transparently?

**Mr Evans**—Very much so because the product that is being produced there has a biodiversity. Australians, for example, do not seem to value biodiversity to the same extent that they value other goods and services that they buy. They would seem to value it more than they did two decades ago. That seems to be clear. That gives you an indication of the nature of what we are dealing with.

**Mr BILLSON**—One last point: the economic instruments are helpful generally in conservation areas, whether it be trading in limited types of pollution or whatever the case might be. Is there a role, for instance, where you have a region with remnant vegetation and a small remaining area of habitat for a particular species that we could put to the market resources that says, 'We're aiming to get 100 hectares in this area.' Would different land-holders have a different propensity to be a part of that sort of thing depending on their own values? Is there a role there in actually testing the market's willingness to embrace conservation activities as a way of getting best value out of whatever funds the taxpayer does make available for those purposes?

**Mr Evans**—Yes, and I will ask Geoff to elaborate. But, basically, the answer must be yes. Do not ignore that you will always have regulation lying behind that. You have to define what it is that you are going to be putting to the market. You cannot avoid regulation by using economic instruments. You can make them more efficient.

**Mr BILLSON**—You have to underpin them with a degree of regulation to create the scarcity, which gives you the market dynamic in the first place. Is that right?

**Mr Francis**—That is right. Normally these systems work either through a tax or subsidy measure or alternatively a tradeable permit system. Some examples that have been used include covenants where—and I think this is more the case in the US—a budget is set aside and land-holders can bid for funding to put a covenant over their land that will restrict their use of the land. For example, where there might be high conservation values in a region, particular land-holders can make a bid and say, 'For this amount of funding, I will accept a covenant over my land to restrict its use.'

**Mr BILLSON**—Just on that: on the issue of vegetation, my sense is that to reward those that retain their vegetation or to use a market based instrument of offsets and the like, you need very strong controls that say, 'Free range clearing is really unhelpful' and, in that light, we have a particular difficulty in Queensland and other places where we do not have underpinning regulation that creates the scarcity in putting incentives forward for conservation.

**Mr Francis**—That is right. At the end of the day you will need some form of regulation to underpin that conservation.

**Mr BILLSON**—So the incentives need some traction to work?

**Mr Francis**—That is right. As you are aware, the issue of public goods deals with the fact that individual incentives may be different for what the wider community is actually seeking. An individual acting according to their own interests may not produce what the wider community are necessarily seeking. You will need some regulation to shift, if you like, the incentives.

**Mr BILLSON**—And likewise on the transition question where, if public money were to play a role in bringing about changes in behaviour, governments would need to have their regulatory house in order first so that they would not be gaining through the transition only to lose twice as much through poor regulation? Mr Causley gave an example of asking a farming community to change their practices—suboptimising—and making resources available to assist in that transition where you would need to make sure that strong regulation was in place to avoid bad practice.

**Mr Francis**—If I understand your question correctly, it is true that, if we provide some form of incentive and then revert back when the funds run out, we have not actually achieved—

**Mr BILLSON**—A whole lot.

**Mr Francis**—a whole lot. At the end of the day, if you are changing incentives through taxpayer funding the incentives will change only so long as the taxpayer funding is there. To achieve that in the longer term, you will need some form of regulation and that regulation could underpin a market.

**Mr BYRNE**—Mr Evans, regarding your comments about the consumer and just conferring with the chair, up until fairly recently—within the past 10 years—there were taxation incentives offered for land clearing for farmers. Given that a number of problems have arisen because of excessive land clearing that has been encouraged by government policy, why then should consumers have to pay a penalty as a consequence of very poor government policy?

**Mr Evans**—It is a good example of how governments' views, which one expects to reflect society's views, have changed over time. When those incentives, which I think disappeared in 1983, were devised, the governments of the day clearly had a view that one needed to help farmers with particular costs. That is not all that long ago, and yet society's views have changed completely. Why should that affect a judgment about the place of consumers? Keep in mind that I raised the consumer issue saying, 'Let us not get too hung up. Someone will have to bear the cost.' It should not be farmers. They are purely the producers. Given that consumers and taxpayers are much the same group anyway, we should not get hung up for equity reasons about which route we take. Where the distinction is important is how the message gets back to producers and to the people themselves who are consuming the final product, which is why it ought to be consumers. Whether they are paying for past or current wrongs is a debating point. One could have an argument over whether today's consumers ought to be paying for the repair, for what has been done in the past. One could mount an argument both ways on that, quite frankly.

**Mr BYRNE**—If you were Treasury, and you are still the head of Treasury, what would your advice be to the government with respect to that? If, hypothetically, we were confronted in the near future with the problem of salinity, where we needed some drastic action to be undertaken, what would your advice be to the government with respect to what action should be taken?

**Mr Evans**—It would probably be easiest to defend an argument which says the current set of consumers should pay current costs and not past costs.

**Mr BYRNE**—Sorry to cut across you, Mr Evans, but there seems to be some sort of imperative with respect to the facts. Whether or not this is right or wrong, it seems to be currently accepted that we need to take a series of actions in a reasonably short period of time that will require some expenditure of money. The question is: if that is the case, where is this funding coming from? To follow your analogy, are we, potentially, suddenly going to jack up the price of the goods that the farmers are producing or are governments going to have to accept some expenditure?

**Mr Evans**—It is not governments—

**Mr BYRNE**—Taxpayers, sorry.

**Mr Evans**—If you are referring to past costs, the economic case would almost certainly say that taxpayers in general should bear that. Whether they bear that through an increase in taxes or a reduction in some other services will be a political judgment, and will go to what Australians want, to what services they want and to what they are prepared to pay for. I think you are basically asking: should the current consumers of the products pay? The answer is that they probably should not. They certainly should pay for any ongoing cost to the land.

**Mr BILLSON**—So you are basically saying that it is till or tax. The same humans end up paying, but the issue is whether they are wearing their taxpayers' hats or their consumers' hats.

**Mr BYRNE**—No, the question is different because the fact is that there is an outlay of taxpayers' funds over a period of time and that can impact on budget surpluses—which I believe is the point that you made. It is a question of time frames, and so I probably have a slightly different opinion. The question then is, given that, and given that we may be facing these sorts of potential expenditures, why hasn't Treasury undertaken some preliminary work on the potential costs? For example, there was an article, I think, in the *Bulletin* fairly recently which discussed the fact that if the salinity problem is not addressed soon then there will have to be significant expenditure on the replacement of roads, because roads are very vulnerable to rising water tables. If that is the case, and that seems to be a fairly commonly held view, why hasn't Treasury started to undertake this work? I would have thought that Treasury was ultimately the body to provide advice to the government.

**Mr Evans**—We would simply accept experts' estimates. They are scientific questions as much as economic—more scientific than economic—so we would have no trouble accepting costs that were properly calculated by ABARE, for example. Whether or not that translates into a fiscal cost is for the government to decide.

**Mr BYRNE**—But surely you would have to acknowledge that there is a potential cost; and you have mentioned that in your speech. You said that expenditure that may be required for the environment will mean a potential diminution to budget surpluses. Again, if that is the case, why hasn't Treasury carried out some sort of preparatory work? Ultimately you will be the people who will make recommendations to government as to whether or not the funds should be expended.

**Mr Evans**—No. On that type of issue, whether it is repairing damage to land per se or roads, the line department with prime responsibility would make the case and then we would examine it—and governments. We would not advise governments as to whether or not taxpayers should bear a particular value. We would simply draw to the government's attention the effect of that on their fiscal outcomes and the government must take that decision.

**Mr BYRNE**—So you are saying that you are waiting for the requisite departments to come up with the costing and then you will assess that.

**Mr Evans**—Yes.

**Mr BYRNE**—So, in a sense, you are saying that none of these departments—and, for example, the environment department is supposed to have responsibility for some of these measures—have produced a costing to the government which says that, 'We might have to expend this sum of money.'

**Mr Evans**—No, I am not saying that at all. The current government, for example, has a wide range of programs in place that address some of these issues you were talking about; so clearly they have been advised and they have adopted policies.

**Mr BYRNE**—But what were you thinking about when you made your comments in July? You were presenting a general framework of potential threat to budget surpluses. Surely you must have had an idea that there may be some impact. The question is: what would your rough assessment be? I know you are saying you do not have any preliminary assessment, but it must have concerned you sufficiently then for you to have made those particular comments.

**Mr Evans**—I used it as an example, along with Defence, of issues that have come more to the fore in policy debate in the last couple of years than had been the case, from memory. Both of those are examples. Why did Defence come to the fore at this time? I am not going to answer that; I think we know the answer, and governments are addressing that. Natural resource management, with salinity being probably the prime example, came to the fore because more work was being done on it, partly in government departments and partly elsewhere within the community. I was not making more of it than that. This is a significant area that governments are addressing.

**Mr BYRNE**—Say, for example, that we accept the fact that there is a fairly substantial crisis with salinity. Certainly, from our investigations, that is a fairly clear situation. I know there has been some effort to address part of that problem. Certainly, the committee and others that are examining this who are far more expert are saying that there is going to have to be significant expenditure. Are you aware, given that, that the department has had a look at this in a more complete sense and provided some level of costing to government, to Treasury, which says that unless we take some action we have to start spending some money?

**Mr Evans**—On salinity?

**Mr BYRNE**—As an example.

**Mr Evans**—Yes, definitely. The government has announced programs.

**Mr BYRNE**—I understand that, but there is also an additional component from some of the witnesses who have appeared before us—from the NFF, the Australian Conservation Foundation, two people from the CSIRO, et cetera—that far more needs to be spent. My question is: are you aware of any sort of additional expenditure that is being proposed with respect to that?

**Mr Evans**—No, I am not aware of that. I do not think that one should avoid the difficult questions in this. The salinity issue shows that, through its natural history, Australia is not a good piece of land to farm. That is the basic issue for a lot of Australia.

**Mr BYRNE**—If you accept that prognosis, are you basically saying that we are going to potentially lose farming as an industry? Is that what you are implying?

**Mr Evans**—No, I am not saying that. I am saying that we have to become better at it. It will be the scientists who show us the way on that.

**CHAIR**—Mr Evans, you are saying that Treasury gets involved only when a bid comes in from a department for funding. You do not look into the future; you act on bids at the time?

**Mr Evans**—Typically, that is the way. We have enough other things to do without trying to do work on which others have the expertise. As I said at the outset, that is why we did not offer you a written submission. I do not think a written submission from us would differ at all from one that you got from one of the professional departments—the agriculture department, for example, or ABARE.

**CHAIR**—If the proverbial bus hits, that is the responsibility of politicians, not Treasury?

**Mr Evans**—For funding programs?

**CHAIR**—The environmental disaster. If it hits and all of a sudden we have to find huge amounts of money, that is the politicians' problem, not Treasury's?

**Mr Evans**—I am not sure what the question is directed at.

**CHAIR**—We have got the National Farmers and others saying that it will cost somewhere between \$30 billion and \$60 billion over a period of time, probably over two or three decades. It is a lot of money. Billions used to be a lot of money; they seem to roll off our tongues these days. Those are the sort of figures that have been given to us. We are asking: are we prepared for this? If, all of a sudden—and there is a lot of work being done at present—the scientists come back and say, 'You've got to spend \$6 billion a year,' it would mean that the bus has hit. Six billion dollars is a lot of money.

**Mr Evans**—We could say to the scientists, 'You might have told us earlier.' It is certainly not something that we could devise figures on.

**Mr BYRNE**—You are always examining the taxation base. You drove a lot of the taxation reform, particularly in the 1980s, in respect of deregulation, et cetera—a whole range of issues



such as the GST. If this could be a potential threat to the base of the government both in terms of exports and in terms of satisfying domestic demand if farming is under threat, and if we do need to spend some additional money, if the problem worsens over a short period of time, which is the point that Ian is making, shouldn't Treasury be starting to examine these sorts of things and saying, 'Let's look at where we might have some potential budget difficulties and start examining some of this stuff'?

**Mr Evans**—That is why we have my colleagues here working on these matters. We did not have a unit by that name, the environment unit, 10 years ago. That is not to say that we did not look at environmental issues. In fact, you will find a Treasury publication dated 1972 entitled *Economic growth, is it worth having?*, which makes reference to greenhouse gases. We have been aware of environmental issues, but it is not an area where we originate work.

**Mr BYRNE**—I have just one final point. You mentioned ABARE and you mentioned some of the problems with salinity, et cetera. I asked ABARE a question in the treaties committee last year about whether or not ABARE had undertaken some costings regarding the cost to Australian industry of implementing the greenhouse protocol. They advised me that they had not done any work. Consequently, if you are waiting for some of these things, it might take time; there might be a bit of a delay. The point that I am making, particularly from a Treasury perspective—and you have obviously started up the unit—is that, given what we understand to be the significant problems that we are facing, and in a fairly compressed time frame, it might be useful if you do not have those costings, for example, about greenhouse compliance from ABARE, which I presume you do not have, to give them a bit of a stir up so that we can actually seriously start looking at the potential costs for the consumer.

**CHAIR**—Do you have questions on this issue, Harry?

**Mr JENKINS**—I think that the twist that the conversation has taken now is interesting in that one of the frustrations, especially for this committee over a number of inquiries, has been that there is not a marrying up of environment indicators with economic indicators. We have made advances in that there is the state of the environment reporting, which is under a long time frame, but if we have—as we do and will—all sorts of economic indicators, everybody wants to read the entrails and come to some conclusions. We are told the market will react if certain indicators show things. I was interested that you said that in a Treasury paper about economic growth back in 1972, but, when we look at the indicators of economic growth, do we really take into account what is the health of the environmental fabric of the nation or the social fabric of the nation? It is a bit frustrating that we do things based on pure economic analysis without, to me, the apparent and proper inclusion of these other matters. Are we seeing a more modern style of economic analysis which will take into account these factors?

**Mr Evans**—I think the answer is yes. I think the ABS, for example, would be among the leaders in national statistical bureaux around the world on environmental issues. It is doing quite a lot. The issues get considerably more prominence in Europe than here, partly I think because of the nature of that continent where there are so many countries with cross-border environmental issues. I think it has a longer history there. The OECD has been looking at environmental issues since at least the early 1970s, to my knowledge. The environmental unit, what is now an environmental directorate there began as an element of the general economics area which is where the techniques were developed, but it is now a full directorate, as they call it—a

department in our terms—in its own right, just as it is within the Australian government. Again, these are political issues. These are society's values that we are talking about. Although the bureaucracy can help and, indeed, ought to have the expertise to respond, governments have to decide what is important in measuring the outcomes that are produced—whether it be simple economic growth as measured by GDP or employment, or how that rates in importance compared with the environmental damage that might be done in producing that GDP. These really are societal value questions that governments are there to decide and to direct from that what statistics ought to be collected and developed and what indicators ought to be used.

**Mr JENKINS**—Would the Europeans or the OECD have a tool, a measurement, that marries the GDP against the damage to natural resources?

**Mr Evans**—I think there is probably more than one. Geoff?

**Mr Francis**—On the issue of GDP, the way it is measured is continually being refined to take into account new costs as we become aware of them. GDP is put forward as one measure of economic progress but it is well known that there are some problems in relation to that. A common example is that if crime goes up you pay more for police forces and then GDP goes up. So there can be some problems in saying that GDP is the best measure of economic progress. Some of the costs of environmental degradation have not, in the past, been incorporated into GDP and, as I understand it, the ABS is increasingly working to include those costs. For example, GDP might include depreciation of physical capital. Where it could be undertaken to measure, for example, depreciation of natural capital, to the extent that plant is degraded through, say, compaction through farming and becomes less productive, then that should ideally be incorporated into measures of production as a cost.

**Mr JENKINS**—I take it, Mr Evans, that what you are saying is that we should be applying political pressure to ensure—if that is what we are after—the wider measure of GDP analysis that would take into account those sorts of natural resource degradations?

**Mr Evans**—Yes, but I think it is best not to mix measures up, because we use GDP to help us advise governments on things that matter like employment and unemployment. It is GDP which is the measure of product—what the country is producing—that drives employment. They are very important issues for government. Environmental issues are important in their own right. You do not need to marry indicators of environmental health with GDP; it would get in the way of the use of GDP, actually, to bring environmental issues too far into that. You are better to develop specific indicators, I believe, that you can use to take your decisions on what you want to do about environmental matters. Governments will still have to weigh up all their objectives but they need specific indicators, really.

**CHAIR**—Ms Corcoran, do you have a question?

**Ms CORCORAN**—I do have a question. My question is quite different from where my colleagues have been. I am a bit new on this committee. I really appreciate your comments earlier: it is new thinking to me, this business of the consumer versus the taxpayer. I was very interested in those comments. But before I heard all that, we have been hearing from different groups that what we need to solve all the problems is a levy on the taxpayer. I assume they mean that we all pay our income tax and then we get another levy on top of that. I have heard

this idea of having a specific levy talked about in a number of ways environmentally, to solve other unemployment problems and stuff like that. I wonder if you have any comment you want to make on this concept: when I pay my tax, on my group certificate or wherever I see an environmental levy as a separate identified figure?

**Mr Evans**—We do not have strong views on that. The government is currently spending X hundred millions on environmental issues. You could convert that quite readily into a specific levy—it is a simple calculation—and call this an environmental levy. What advantage does one gain from doing so? Is it heightening awareness? Is it better recognition of the cost perhaps? But does that help the environmental cause or does it hinder it?

**Ms CORCORAN**—Yes, that is my question.

**Mr Evans**—There is not an economic answer to it, I do not think. Typically, as Treasury, we have advised governments against what is called hypothecation: specifying that a tax is for a particular purpose.

**CHAIR**—That is why the public does not like Treasury: they put it in their pocket.

**Mr BILLSON**—I was hoping we were not going down that road.

**Mr BYRNE**—That is probably not a good point to raise. Let us talk about road funding.

**Mr Evans**—There are probably a lot of reasons why the public does not like Treasury. We have never seen hypothecation as being a particularly useful tool, but there is no real economics in the issue. Again, it is a question for governments to decide. They have to ask, ‘Is this a helpful way to serve this cause, along with all our other causes, if we have an environmental levy? We already have a Medicare levy which funds a very small part of health costs. Why shouldn’t we have a road levy? Why shouldn’t we have a defence levy? Are we just limiting our ability to meet our priorities?’ With respect to what we see as the people’s priorities, you would have to legislate for a levy. Society’s views change, and then you would have to get the levy changed. The option has always been there, but typically the government has not found it particularly helpful.

**Ms CORCORAN**—Is it for that reason—that changing it is difficult?

**Mr Evans**—I think that is probably it, but I am really guessing. It is not a Treasury type issue. It effects what we do, but it is not an economic matter.

**Mr BILLSON**—On the issue of impact, I understand and accept your GDP argument and recognise the ironies of car accidents being good for GDP, but not so good for the folks. Is it worth moving to an asset type of reporting on our natural systems? We have now got an Australian accounting standard for self-renewing assets, to help bring forestry activities and all those sorts of things to the balance sheet. Should we be heading that way at a national level? If we are putting money into the better care and management of our natural systems, should that reflect in the asset value? Conversely, if we are degrading them, we can see our asset base deteriorating. Is that an option that we could put alongside other flow type measures?

**Mr Evans**—Yes, that is certainly an option. It seems to be the right way to look at it. National accounts, which is where GDP comes from, were developed for a specific purpose. They had nothing to do with this and they do not seem to be very helpful. You do want different indicators. Given that we are talking in most of the environmental areas about processes that devalue our natural assets—whether it be land, water or air—it is a stock type issue. How you measure those things is a completely different thing, but conceptually you want something that is understandable to the public. That is really quite important. That does not always best come out of something like accounting standards, for example.

**Mr BILLSON**—I am thinking in terms of your role in advising governments on the best results for funds invested. In a previous inquiry we had some expert advice suggesting that there are some catchments that are so degraded, so unlikely to ever be restored to a productive area, that you write them off and invest the funds in transition issues for the communities that were there—turn what was once a river system into a salt drain and deal with it as an engineering problem. It is hard to properly evaluate that policy option and the social impacts without having some sort of criteria against which to measure your investment. I thought that might have been something that Treasury was keen to have a look at.

**Mr Francis**—You are right in what you say: in some areas the environmental degradation has been severe.

**Mr BILLSON**—Cactus.

**Mr Francis**—It raises the question: what is the optimal state of the environment and, if you are looking at returning the environment to its natural state, in some areas it is simply uneconomic to do so. In terms of repair of some farmland, in some cases it will be uneconomic to do so.

**Mr BILLSON**—Is that where your unit comes in? Do you provide within Treasury some advice on the investment options? I am just trying to get a handle on what you guys are doing.

**Mr Francis**—No, that would be a role for the departments that are closer to the problems. Our role is principally advice to Treasury ministers on policy matters that go before government.

**Mr BILLSON**—I was a bit concerned by some of the earlier comments about where Treasury is at with this. I guess my sense is that it is an enormous risk assessment task and we have others in the budget that recognise risks to our fiscal position—if, for instance, there is a Wool Board decision and we are going to get done over by the Kiwis or the South Africans, and there is a recognition of fiscal risk. My sense is that this is a fiscal risk of biblical proportions and maybe we should be looking at it through your units as a risk assessment assignment. Do you have thoughts on that?

**Mr Evans**—There are limits to what we can do. One of the other significant fiscal risks that is around is ageing of the population, and we do a lot of work on that because we have some expertise that has been developed for other purposes dealing with superannuation taxation, for example. We can work on that, but we need an enormous amount of help from the health department, for example, on health costs, but nonetheless we do a lot of work and we see it very

much in the fiscal risk category. This is also a fiscal risk category, but the type of work that has to be done we have very little expertise in.

**Mr BILLSON**—Is this a tooling-up exercise with these guys?

**Mr Evans**—Some of this is. We believe that we must at least be able to advise the Treasurer on what we think of the quality of the work that is being done elsewhere, but we would not attempt to originate work in those other areas because it is a very big job, and it requires a lot of expertise. It would be quite silly to put it in Treasury because so much of it is scientific.

**Mr BILLSON**—One of the dilemmas we are facing is a lot of blame attribution, and hence that earlier question about duty of care. Tax or till, I understand all that, but it is just that we have got to get to that point and there are some timing issues that my colleague Mr Byrne has pointed out. But one of our tasks is to do a proper risk assessment and it would involve somebody arriving at the \$64 squillion question, as it seems: where does the buck stop and what is a private onus to help with the prevention and rectification task versus what is the strict liability of the Commonwealth?

**CHAIR**—I am a little bit stunned by the whole affair, because if I was in private enterprise I would be looking forward probably 10 years. I would be trying to analyse what my costs and my liabilities were going to be 10 years up, what my competitors might be doing. Part of business is to try and see what those risks are going to be, and to think that there is no committee in government that is assessing what the effects might be on surpluses and budgets is quite extraordinary.

**Mr Evans**—It is certainly not the case that government is not looking at these issues. The natural resource management issues have been elevated by this government to the status of a secretaries' committee, which I sit on. To my knowledge, I do not think these issues have ever been looked at at that level before. The issue is not that it is not being done, and it is not a question of people trying to shift blame, but the fiscal consequences of this are not one of the major issues about it, because there will not be any fiscal consequences in the sense of affecting a surplus. The Treasurer's job is to ensure that fiscal policy is right for the times, and typically that will mean at least having a balanced budget. Budgets go into deficit and surplus, but the fiscal costs will have to be borne. If there is a fiscal cost, it will be borne by taxpayers; it will not be borne by the surplus, it will be borne by a tax.

**CHAIR**—It hasn't always been the case in the past.

**Mr Evans**—Over any considerable period it has. There have been short periods when governments have run up deficits.

**Mr BYRNE**—Are you saying, for example, that East Timor, where the government was proposing a levy, was in response to the fact that basically you wanted to do whatever you could to protect the surplus?

**Mr Evans**—That is right.

**Mr BYRNE**—If we use a similar analogy, which is the point that my colleague Ann Corcoran made, if there was an assessment made, using that as a model, you may actually advise that there be a levy to protect the surplus.

**Mr BILLSON**—In preference to reordering priorities.

**Mr Evans**—One way or other it will mean either increased taxes or reduced services of another kind. Treasuries cannot even advise on that choice. That is very much a societal choice.

**Mr BYRNE**—What is your target range for a surplus—say, in five years time? Where is the high water level? When is it a problem? If we have got to spend so much money on the environment, where is the natural watermark? What is a reasonable budget surplus to be protected?

**Mr Evans**—The government has a publicly stated objective of balancing the budget over the cycle. That means running surpluses at one stage and deficits at another.

**Mr BYRNE**—Do we have a percentage? You obviously must have a figure where you think of surpluses.

**Mr Evans**—No, it is a balance. It is zero over the cycle. The surpluses are sufficient to cover the deficits that have been there in the past.

**Mr BYRNE**—So, in a sense, it would not really matter about the level of the surplus, as long as it stays above zero.

**Mr Evans**—No. The surplus has to be sufficient to balance either the past or prospective deficits. When the economy turns down sharply, the budget naturally goes into deficit. That has to be balanced. How much surplus you need depends on how much deficit you have had, plus what your starting point was.

**Mr BYRNE**—For example, if we are looking towards potentially a slowdown and we had to spend some money, and then we are moving to protect our surplus, would we have to contemplate a potential levy sooner rather than later to protect that surplus?

**Mr Evans**—I think we will have to wait and see.

**Mr BILLSON**—With respect to the land and water audit and work like that which is providing better baseline data, under the guise of work programs or whatever, is there a pastoral care interest in those sorts of things to see what risk exposure there may be or to start defining in clinical terms where the Commonwealth would be expected to intervene?

**Mr Francis**—As I understand, it the land and water quality audit fed into the policy design of programs that have been announced. Whether there is an ongoing audit will ultimately be a judgment for the government to make.

**Mr BILLSON**—Can we leave today comforted that there is some risk assessment task on the radar screen of Treasury for natural systems degradation that we rely on others to help to assess, but that we are mindful that it is a potential Achilles heel in economic terms?

**Mr Evans**—Our people will concentrate on what type of instruments we think will best achieve what governments want to do. As to what the cost is, we will not attempt to measure that. We will attempt to advise on how best to address the issues.

**Mr BILLSON**—To bring about change.

**CHAIR**—Can I go back to the ability of land-holders to pay. In your opening remarks, you were obviously talking about the national competition policy and the policies we have in place now to get efficiencies. They are also coupled with the abolition of tariffs. When you get to that stage, you are not competing with competitors within Australia; you are competing with competitors within the world, and some of them are atrociously subsidised. Do you keep any records on the viability of farms since the introduction of the national competition policy?

**Mr Evans**—Not to my knowledge.

**Mr DiGiorgio**—I do not believe there is any work on that in Treasury.

**Mr Evans**—Again, we would rely on others for that. I am not quite sure where you are heading with the question.

**CHAIR**—We are asking farmers what they can pay, and many of them are saying to us that they have nothing to pay with. This is why we then look at levies and whatever because we know there is a cost coming. That is what we are trying to come to terms with: what is reasonable to expect property owners to pay? Really it would seem that their ability to pay has been diminished in recent years.

**Mr Evans**—It would not have been diminished for tariff reasons. That is why the farming community has been one of the strongest proponents of tariff reductions.

**CHAIR**—Sorry, the National Farmers Federation have been. If you go out to the community, where we are getting submissions, they do not agree.

**Mr Evans**—Yes. It depends on whether they use fertilisers or not where they have considerable benefit.

**CHAIR**—There is no subsidy on fertiliser.

**Mr Evans**—Not any more. There used to be very high tariffs on them to protect Australian manufacturers of fertilisers. The farming community in general has strongly supported those types of policies because of the benefit that it would bring them. The products that farms produce are for highly competitive markets, and there is no doubt about that. We have to advise governments for the whole of the Australian community, and that is where the conservation issue arises. Equally, this is not an issue that comes up in the greenhouse area. There is not a lot

to be said for Australia avoiding the production of greenhouse gases if that simply means they are going to be produced somewhere else. Some of these things require global solutions. On the land use, though, that is pretty much entirely Australian.

**CHAIR**—Are you aware that banks are now taking into consideration the effects of some government policies—for instance, the deregulation of the dairy market and also the New South Wales legislation on water—that banks are now reassessing their loan commitments and devaluing properties?

**Mr Evans**—I would be surprised if they were not.

**CHAIR**—That does have an effect on the ability to pay because all of a sudden the banks are saying, ‘You’ve got to pay us.’

**Mr Evans**—Are you making more of a point than that farming is not a very profitable business?

**CHAIR**—I am trying to get to the point. The fact is that there would be, undoubtedly, a problem here. In one area we are saying to the users of the land, ‘You should be paying for some of these conservation issues.’ They are saying to us, ‘We can’t pay.’ So we cannot dodge it, and the community will end up paying.

**Mr Evans**—I thought all of what I have said would be agreeing with what they are saying.

**CHAIR**—Are there any disincentives in the tax system that you see that inhibit the ability of people to carry on conservation issues, say, in capital gains areas and things such as that?

**Mr BILLSON**—I think another example is that the WA state land tax requires production. If you had a 10-acre farm outside Perth with lovely remanent vegetation on it and said, ‘Here’s a great place for a winery,’ and I had a farm and said, ‘Here’s a great 10-acre farm just outside Perth, next door. Gee, I like the bird life,’ I would actually get to pay state land tax. If you mowed it down—I am not saying that you would, Mr Evans—the hypothetical other landowner would be relieved of that burden while removing the remanent vegetation. It is just perverse.

**Mr Evans**—In the work that we have been doing over the last couple of years—and this flows on from that secretaries committee I mentioned—we have suggested that we should start by looking at those areas where tax may be providing the wrong incentives. Before we look at such questions as ‘Do we need new taxes?’ we should start by looking at where there may be bad signals coming from the tax system. Geoff, do you want to talk about where we are up to with that?

**Mr Francis**—We are broadly aware that some tax instruments can have perverse outcomes and, at the same time, are of benefit to certain land-holders. Ultimately, in addressing these issues, it is a question of setting up the tax incentives so that they provide the appropriate level of support that government deems necessary but, at the same time, do not provide the perverse outcomes.



**Mr BILLSON**—So the design question is one of clarity of purpose, which is again a government political question, I guess.

**Mr Francis**—One of the problems with using the tax system is that it tends to be a very broad instrument that can have perverse outcomes in certain areas. There are tax concessions in the form of accelerated depreciation for particular land measures, some of which are based on environmental repair. Some—for example, those relating to conservation of water on properties—could actually induce some environmental damage to the extent that they may reduce river flows. This is a problem in using the tax system, which ultimately is a fairly broad instrument, to alleviate specific problems.

**Mr BILLSON**—The question of the value placed on resource security arises out of the conversation we were having before about water in New South Wales, where it is Christmas if you get 100 per cent of your allocation, whereas in Victoria you can bet your house on it and then have an opportunity to purchase above that. So there is that resource security question about what water is available to support production and then guaranteed ability to access and then the market opportunities that flow. Does more work need to be done where there are these adjustment pressures—like what Mr Causley was talking about—to talk up and promote the public awareness of what sustainability means not only for personal wealth but for the wellbeing of the country?

**Mr Evans**—Not by Treasury, I do not think. That is not our role.

**Mr BILLSON**—Could you guys help? One of the great traumas we have is that there are sometimes different messages going out from government. If the hard-nosed, objective dry types from Treasury were saying the same thing as the woolly, cuddly conservation types, I would have thought most people would get the picture that it matters. Maybe you guys could help with some of that.

**Mr Evans**—It is not our place to get into what are basically political debates, frankly. In areas where the economics and the conservation cause line up, as they do in the running down of natural resources, it is not hard to make the case. But I do not think you need us to make it either.

**Mr BILLSON**—No, I certainly would not seek to rely on Treasury making the case. I am just wondering whether you guys can be helpful in the whole of government communication of that to the constituency to build up the value recognition—that it is worth the effort—that seems to be central to some of the solutions here.

**Mr Evans**—I think we are.

**Mr Francis**—We view ourselves as already being helpful.

**Mr BILLSON**—I have spotted one instalment, and that was the speech that you were saying has not been reported accurately!

**Mr BYRNE**—The speech was helpful in the sense that you created a framework for governments to have a look at it. I would defend Mr Evans here with respect to—

**CHAIR**—It certainly raised the issue.

**Mr BYRNE**—The issue in respect of this is that you have created the framework and I think it has been very positive. One of the reasons why you are here before us is that the governments, as you have quite rightly pointed out, have probably stuck their heads in the sand. By making these sorts of comments, you have, in a sense, broadened the framework. People are actually starting to have a look at that. If you are talking about issues like passing on costs to the consumers—levies et cetera—your making those sorts of interventions is important because it is forcing governments and the community to have a look at these sorts of things.

**Mr BILLSON**—Phillip Coorey said it matters because you said something about it.

**Mr Evans**—Before I get misreported again, I do not think I said that governments are sticking their heads in the sand.

**Mr BYRNE**—No, that was my comment, sorry.

**Mr Evans**—That is how misreporting comes about though.

**Mr BILLSON**—I am sorry to put you in a situation.

**CHAIR**—You will make a good politician soon.

**Mr Evans**—No, thank you.

**Mr BYRNE**—The point my colleagues are making is that your comments are quite important. When it gets to the level of Treasury, then governments—the consumers et cetera—think this is a very serious issue if you have got the Secretary to the Treasury making a comment like this. I think what you have done has been extremely helpful in the sense of actually raising the awareness of the debate. If we have to pass costs onto consumers, if we have to do this, we are going to have to have a general framework to take those cost increases and levies to the consumers.

**CHAIR**—The issue that I was raising so that we might be able to get a reply to it, if you are not aware of it, was with the forest agreements and private plantations. I think Mr Byrne said he thought it was tax ruling 8—

**Mr BYRNE**—Tax law 8 and its effect on the Tasmanian RFA where they are having to pay capital gains tax.

**CHAIR**—We have evidence to that to say there were disincentives in the system.

**Mr Francis**—Yes, I am aware of the issue broadly. As I understand it, some money was allocated from the budget to put in place conservation covenants and there was a capital gains tax treatment on that. Whilst a simple examination of the tax system would suggest that there is a distortion favouring not entering into the environmental covenant, that can ultimately be fixed up at the other end, simply because you have to purchase the covenant at a higher price

provided individuals are aware of the tax treatment they face. It is really a question of were those land-holders adequately informed of the tax treatment that they would be subject to before entering into that particular agreement. They were voluntary agreements. You would expect individuals to seek advice on the tax treatment that they would face.

**Mr BYRNE**—But there seems to be an anomaly in the sense that you can, as I understand it as part of that, clear land and then you would pay no tax on the land that was actually cleared. So if you are talking about sending signals via the legislation that is a pretty—

**CHAIR**—Clear native forest.

**Mr BYRNE**—Native forest, I am sorry.

**Ms CORCORAN**—The product of the clearing.

**Mr BYRNE**—That is a fairly poor message, I would have thought, to be sending.

**Ms CORCORAN**—They would only do it once though.

**Mr Francis**—That is one way to see it. I would say, in counter to that, that where the government was seeking a specific objective, it means, given there is a tax disincentive there, that these covenants were voluntary for people to enter into—they would be seeking a higher price for the covenant based on their tax treatment.

**Mr BILLSON**—Could we maybe give you what we have got and seek a formal response?

**CHAIR**—I think that is easier. As there are no other questions from the committee, I thank you very much. We have had a pretty wide-ranging discussion.

Resolved (on motion by Ms **Corcoran**):

That, pursuant to the power conferred by section (a) of standing order 346, this committee authorises publication of the evidence given before it at public hearing this day.

**Committee adjourned at 11.14 a.m.**